

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
SCHEME REGISTRATION NUMBER: 10269688

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

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NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE AND ADVISERS

YEAR ENDED 31 DECEMBER 2022

Trustee company	Network Rail Pension Trustee Limited
Trustee directors	<p>Employer Nominated</p> <p>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)</p> <p>Trade Union Nominated</p> <p>Andrew Fielding (Unite) Paul Norris (RMT) Urvish Pandya (TSSA) (resigned 1 April 2022) Gary Adams (TSSA) (appointed 1 April 2022)</p> <p>Member Nominated</p> <p>Robert Arnold</p>
Secretary to Trustee	Claire McCarthy
Scheme administrator	WTW Westgate 120 – 130 Station Road Redhill Surrey RH1 1WS
Auditor	RSM UK Audit LLP Statutory Auditor Chartered Accountants 25 High Street Crawley RH10 1BG
Legal advisers	<p>Squire Patton Boggs (UK) LLP (until 30 April 2022) 6 Wellington Place Leeds LS1 4AP</p> <p>Mayer Brown International LLP (from 1 May 2022) 201 Bishopsgate London EC2M 3AF</p>
Investment adviser	Schroder Solutions 1 London Wall Place London EC2Y 5AU
Investment managers	Legal & General Investment Management Limited One Coleman Street London EC2R 5AA

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEES AND ADVISERS *(continued)*

YEAR ENDED 31 DECEMBER 2022

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

CHAIRMAN'S STATEMENT

YEAR ENDED 31 DECEMBER 2022

Chair's Introduction

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

There are now 12,148 active members (13,319 last year) while the total membership (including leavers who still have funds invested) has increased to 32,276 (from 31,258 last year). The total value of the Scheme's assets at 31 December 2022 was £488.6 million, a decrease of £52.5 million (from £541.1 million at 31 December 2021) in the last year.

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

Investment Strategy

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

The Trustees have reviewed the NRDC Investment Strategy during the course of 2022, however the Trustees took the decision not to launch the changes as planned in Q4 of 2022 due to the UK Gilt Crisis. They have subsequently reviewed their original decisions on strategy changes and are making some further minor amendments. It is expected that the NRDC Investment Strategy changes will be implemented following a member communication exercise in Quarter 3 or 4 of 2023.

Changes to your Trustee Board and Network Rail Pensions Team

As you will see on page 1, there has been a small number of changes on the Board since the last report.

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.

I look forward to working with all of my Trustee Director colleagues as we embark on another full programme of work in the coming year.

Samantha Pitt

Samantha Pitt
Chair of the Trustee

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT

YEAR ENDED 31 DECEMBER 2022

The Trustee of the Network Rail Defined Contribution Pension Scheme (the "Scheme" or "NRDC") presents its annual report together with the investment report, summary of contributions, compliance statement and financial statements for the year ended 31 December 2022.

Scheme constitution and management

The Scheme

The Scheme commenced with effect from 31 March 2004 as a tax registered pension scheme established by way of a definitive Trust Deed and Rules. The Trust is managed by Network Rail Pension Trustee Limited ('The Trustee'), whose registered address is Waterloo General Office, London, SE1 8SW, which also acts as Trustee of the Network Rail CARE Pension Scheme ('NR CARE'), established on 1 November 2008.

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

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

Trustees

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 members¹ of NR CARE and NRDC. The employer nominated directors are appointed by Network Rail Infrastructure Limited at its discretion. Network Rail's three recognised trade unions (TSSA, RMT and Unite) nominate one person each to sit on the Trustee Board and the member nominated director is appointed following a nomination and selection process.

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

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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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.attended
Timothy Craddock	9	7
Mark Engelbretson	9	9
Andrew Fielding	9	8
Robert Arnold	9	7
Paul Norris	9	8
Louise Kavanagh	9	5
Urvish Pandya (resigned 1 April 2022)	4	4
Gary Adams (appointed 1 April 2022)	5	4
Law Debenture, represented by Samantha Pitt	9	7

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

- Audit and Risk sub-committee to identify, monitor and recommend methods of managing key risks associated with the Scheme. The sub-committee met on 4 occasions during the year ending 31 December 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 NR Pensions Manager. The Trustee has delegated authority to this committee to exercise discretion and make decisions regarding the payment of benefits in certain circumstances where referral to the full Board is not deemed necessary. This will usually involve deciding who is to receive lump sums and dependants' benefits on the death of a member and approving member requests for early retirement on grounds of incapacity. Cases are usually reviewed by the sub-committee electronically and decisions made via memorandum. If a decision cannot be reached, then a meeting is convened to discuss. If there is no consensus then the case is referred and decided by the full Trustee Board. The sub-committee met on 2 occasions during the year ending 31 December 2022.

Changes to Scheme

During the year ending 31 December 2022, no Deeds of Amendment were executed.

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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 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 was conducted in order to monitor compliance with the Pension Regulator's Trustee Knowledge and Understanding (TKU) Code of Practice.

Under the Trustee's training policy, new Trustee Directors are required to complete the Pensions Regulator's e-learning Trustee Toolkit within six months of appointment. Trustee Directors are also encouraged to gain the Pensions Management Institute ('PMI') Award in Trusteeship qualification. With the exception of the most recent appointment, 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 Campbell	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 it receives. The Trustee's appointed advisers are listed on page 1 and 2.

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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 prior year ended 31 December 2021 is set out in the following table:

	2022	2021
	£000	£000
Member related income	43,088	46,189
Member related payments	(15,332)	(15,258)
Scheme expenses	(16)	(55)
Net additions from dealings with members	27,740	30,876
Net returns on investments	(80,272)	41,217
Net increase in the fund during the year	(52,532)	72,093
Net assets at start of year	541,170	469,077
Net assets at end of year	488,638	541,170

During the year ending 31 December 2022, 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 in October 2022 took the decision to suspend the implementation of the NRDC investment strategy review to reassess their decisions in light of the market movements during the course of 2022 and following advice and discussions with their investment advisors. The Trustee has since post year end completed this review and will now be implementing the revised investment strategy for NRDC members in the second half of 2023. The Trustee continues to monitor their investment strategy with their advisers to continue to ensure that they offer members an appropriate range of investment choices that provide value for money.

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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Statement of Trustee's 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 to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the 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 Defined Contribution Pension Scheme website.

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised 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 payment schedule. 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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Contributions

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

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

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

Automatic Enrolment into the Scheme

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

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

	Minimum Contribution underpin % of Qualifying Earnings	
	Member	Employer
April 2018 to April 2019	3%	2%
April 2019 onwards	5%	3%

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Membership and benefits

The changes in membership during the year are as follows:

	Active members	Deferred members	Total
At 1 January 2022	13,319	17,939	31,258
Adjustments to prior period	(148)	110	(38)
New members joining	1,816	–	1,816
Retirements	–	(1)	(1)
Members leaving without refunds	(6)	–	(6)
Deaths	(8)	(7)	(15)
Trivial commutations	–	(1)	(1)
Transfers out	(2)	(592)	(594)
Members leaving with deferred benefits	(2,732)	2,732	–
Others	(28)	(52)	(80)
Opted Out	(63)	–	(63)
At 31 December 2022	<u>12,148</u>	<u>20,128</u>	<u>32,276</u>

Adjustments to prior year reflect timing differences between the effective date of leaving or retiring and the actual date the administration system was updated.

Transfer values

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

Investment management

Investment managers

The platform provider continues to be Legal & General Assurance (Pensions Management) Limited (“L&G”) who were appointed by the Trustee on 1 January 2020.

Investment Adviser

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

In February 2022, Schroders purchased River & Mercantile Investments Limited from the River & Mercantile Group and rebranded them as 'Schroders Solutions'. Schroders Solutions continue in the role as Investment Adviser to the Scheme.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Investment principles

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

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

A copy of this statement is available for inspection and may be obtained from the contact listed for further information about the Scheme.

Investment performance

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

Fund	1 year % p.a.	3 years % p.a.	5 years % p.a.
NRDC Higher Risk Fund	-9.3	4.0	4.5
Long-Term Target	15.0	9.9	8.4
NRDC Balanced Risk Fund	-14.3	0.8	2.5
Long-Term Target	14.0	8.9	7.4
NRDC Lower Risk Fund	-17.9	-2.6	-0.3
Long-Term Target	13.0	7.9	6.4
NRDC Annuity Protection Fund	-29.3	-9.3	-3.9
Benchmark	-29.4	-9.3	-3.8
NRDC Cash Fund	1.3	0.5	0.5
Benchmark	1.4	0.5	0.5
NRDC Emerging Markets Equity Fund	-7.5	1.2	0.2
Benchmark	7.0	1.6	2.3
NRDC Global Equity Fund	-3.2	4.6	5.1
Benchmark	-3.2	4.9	5.2
NRDC Aggregate Bond Fund	-21.0	-6.5	-2.6
Benchmark	-21.0	-6.4	-2.5
NRDC Property Fund	-21.0	-1.7	0.2
Long-Term Target	-10.9	1.7	2.6
NRDC Index-Linked Gilts Fund	-38.8	-10.3	-5.2
Benchmark	-38.8	-10.4	-5.3
Legal & General Ethical Global Equity Index	-6.5	9.1	9.2
Benchmark	-6.3	9.4	9.6
HSBC Islamic Global Equity Index	-15.8	9.7	12.4
Benchmark	-15.7	10.2	13.0

Source: Legal & General (data, as at 31 December 2022), ONS (CPI date, as at 31 December 2022). Performance is shown net of fees.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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.

- The Long Term Target used for each blended fund is defined in the table below. Data for this target is sourced from ONS.
- Inception date of the Legal & General Ethical Global Equity Index is 31 July 2018 (date first contribution received).
- Inception date of the HSBC Islamic Global Equity Index is 31 October 2018 (date first contribution received).

Market performance across the majority of asset classes was negative over the course of 2022 (particularly in equity, credit and government bonds). The negative performance of government bonds was in large part driven by the volatile political situation in the UK. 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 with exposure to UK Government bonds. In late October Liz Truss was replaced as prime minister by Rishi Sunak which helped to stabilise volatility in the UK government bond market.

Regarding the funds within the Managed Lifestyle arrangement, the majority of funds performed in line with or ahead of their targets/benchmarks over the 12 month period to 31 December 2022. This was driven by a combination of poor market performance across the majority of asset classes (particularly in equity, credit and bonds) and multi-decade high levels of inflation over the period (which amplified the inflation related benchmarks for the Balanced and Lower Risk Funds). Fund performance has partially recovered since year end.

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

- The passively managed funds (NRDC Global Equity Fund, NRDC Aggregate Bond Fund, NRDC Index-Linked Gilt Fund, Legal & General Ethical Global Equity Index and HSBC Islamic Global Equity Index) effectively tracked their respective benchmarks over the 12 month period to 31 December 2022.
- The Higher Risk Fund underperformed its target over the 12 month period to 31 December 2022 due to poor market performance in combination with multi-decade high levels of inflation.
- The performance of the NRDC Emerging Markets Equity Fund was reviewed in 2019, with the underlying actively-managed fund replaced with a passive index-tracking fund. The fund effectively tracked its benchmark over the 12 month period to 31 December 2022.
- The NRDC Property Fund underperformed its long-term target over the 12 month period to 31 December 2022 due to the economic slow down borne out of central banks' rate hikes.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Return targets for the member funds are shown below:

Fund	Active/Passive	Benchmark/Long-Term Target
NRDC Higher Risk Fund	Active	CPI + 4% p.a.
NRDC Balanced Risk Fund	Active	CPI + 3% p.a.
NRDC Lower Risk Fund	Active	CPI + 2% p.a.
NRDC Annuity Protection Fund	Passive	In line with bonds*
NRDC Cash Fund	Active	SONIA
NRDC Emerging Markets Equity Fund	Passive	FTSE Emerging Markets Index
NRDC Global Equity Fund	Passive	50% FTSE All-Share Index, 50% Overseas Equities
NRDC Aggregate Bond Fund	Passive	50% FTSE A Government (All Stocks) Index,
NRDC Property Fund	Active	50% iBoxx £ Non-Gilts Index 75% FTSE EPRA/NAREIT Developed Real Estate Index - GBP Hedged
NRDC Index-Linked Gilts Fund	Passive	25% MSCI QPFI All Balanced Funds FTSE UK Gilts Index-Linked Over 5 Years Index.
Legal & General Ethical Global Equity Index	Passive	FTSE 4Good Developed Index
HSBC Islamic Global Equity Index	Passive	DJ Islamic Market Global Titans 100 Index

Source: Legal & General (data, as at 31 December 2022).

*As defined by the Trustee in conjunction with its investment advisor, updated from time to time.

Employer related investments

As at 31 December 2022, the NRDC investment assets included £0 invested in Network Rail. The combined percentage of the Employer related investments was 0.00% of total NRDC investment assets.

Investment Strategy Overview

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

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

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

Investment Strategy Overview *(continued)*

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

The investment strategy includes several options for members. The "Managed Lifestyle" arrangement switches members across three member funds, called Core Options, and a Cash Fund as members approach retirement. Each Core Option is made up of a variety of underlying funds, managed by different investment managers. Each Core Option also has its own risk and return objective, thereby taking account of members' changing needs as they approach retirement.

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

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

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

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

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

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

Compliance

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.

Financial Advice

The Trustee is not authorised to give financial advice. The Financial Services & Markets Act 2000 states who is able to provide investment advice, and any queries relating to specific arrangements should always be referred to a Financial Adviser authorised to give such advice. Should a member have any other queries, relating to their own Personal Retirement Account, they should contact WTW, the Scheme administrator, at the address shown on page 17.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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.

Taxation

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

Related Party Transactions

The Principal Employer has paid the majority of the costs of administering the Scheme for the year. Further details of related party transactions are given in note 22 to the financial statements.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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:

- information regarding the Plan has been registered with the Pension Tracing Service
- if they have general requests for information or guidance concerning pension arrangements contact MoneyHelper:

Address: Holborn Centre, 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

In addition to the above, The Pensions Regulator regulates company pension schemes and enforces the law as it relates to them. 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 has 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 Plan 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 17 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, 1 complaint was dealt with under this procedure.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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
Tel: 01908 781010

Email: pensions@networkrail.co.uk

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 Offices
London SE1 8SW

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2022

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 DECEMBER 2022

During the year ended 31 December 2022, the contributions payable to the Scheme were as follows:

	£
Contributions required by the schedule of contributions	
Employers	
Normal contributions	18,156,639
Special contributions	27,929
Salary sacrifice contributions	18,095,523
Employees	
Normal contributions	1,738,880
	<u>38,018,971</u>
Other contributions	
Employees	
Additional voluntary contributions	2,231,455
Total contributions receivable	<u><u>40,250,426</u></u>

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

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

Samantha Pitt
Samantha Pitt
Trustee Director

Robert Arnold
Robert Arnold
Trustee Director

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

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 TRUSTEES OF THE NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

YEAR ENDED 31 DECEMBER 2022

Statement about contributions

We have examined the summary of contributions payable to Network Rail Defined Contribution Pension Scheme in respect of the Scheme year ended 31 December 2022 which is set out on page 19.

In our opinion the contributions for the Scheme year ended 31 December 2022 as reported in the summary of contributions and payable under the Payment Schedule have in all material respects been paid at least in accordance with the Payment Schedule certified by the actuary on 31 March 2016.

Scope of work on statement about contributions

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

Respective responsibilities of Trustee and the auditor

As explained more fully on page 8 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 Payment Schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Payment Schedule.

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

Use of our statement

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to 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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

YEAR ENDED 31 DECEMBER 2022

Opinion

We have audited the Financial Statements of the Network Rail Defined Contribution Pension Scheme for the year ended 31 December 2022 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 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 annual report and 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 annual report and 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's 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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME *(continued)*

YEAR ENDED 31 DECEMBER 2022

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement, the Trustee is responsible for the preparation of the annual report and financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of annual report and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual report and 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 annual report and 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.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME *(continued)*

YEAR ENDED 31 DECEMBER 2022

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 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 members, 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 members 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 members 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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Contributions and benefits			
Employer contributions		36,280,091	39,489,410
Employee contributions		3,970,335	3,430,845
Total contributions	4	40,250,426	42,920,255
Transfers in	5	536,634	1,024,087
Other income	6	2,300,441	2,245,045
		43,087,501	46,189,387
Benefits paid or payable	7	(7,995,072)	(6,001,504)
Payments to and on account of leavers	8	(7,336,360)	(9,256,748)
Administrative expenses	9	(16,152)	(55,434)
		(15,347,584)	(15,313,686)
Net additions from dealings with members		27,739,917	30,875,701
Returns on investments			
Investment income	10	34,409	–
Change in market value of investments	11	(80,306,805)	41,236,658
Investment management expenses	12	–	(19,305)
Net return on investments		(80,272,396)	41,217,353
Net (decrease)/increase in the fund during the year		(52,532,479)	72,093,054
Net assets of the Scheme			
At 1 January		541,170,123	469,077,069
At 31 December		488,637,644	541,170,123

The notes on pages 26 to 38 form part of these annual report and financial statements.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Investment assets	11		
Pooled investment vehicles	14	486,886,446	540,426,710
Other investment balances	15	179,346	10,703
		<u>487,065,792</u>	<u>540,437,413</u>
Current assets	20	3,886,345	3,057,897
Current liabilities	21	(2,314,493)	(2,325,187)
Net assets of the Scheme at 31 December		<u>488,637,644</u>	<u>541,170,123</u>

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

The financial statements were approved by Network Rail Pension Trustee Ltd and authorised for issue on 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 26 to 38 form part of these annual report and financial statements.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

1. Basis of preparation

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

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

2. Statement of compliance

The Scheme is established as a trust under English Law. The registered address of the Scheme is at Network Rail Pension Trustee Limited, Waterloo General Offices, London, SE1 8SW.

3. Accounting policies

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

Contributions

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

Transfer from and to other plans

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

Benefits and payments to and on account of leavers

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

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

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

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

Administrative and other expenses

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

3. Accounting policies *(continued)*

Investment income and expenditure

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

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

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

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

Valuation and classification of investments

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

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

4. Contributions

	2022	2021
	£	£
Employer contributions		
Normal	18,156,639	19,915,385
Special contributions	27,929	9,610
Employers SMART contributions	18,095,523	19,564,415
	<u>36,280,091</u>	<u>39,489,410</u>
Employee contributions		
Normal	1,738,880	1,767,064
Additional voluntary contributions	2,231,455	1,663,781
	<u>3,970,335</u>	<u>3,430,845</u>
	<u>40,250,426</u>	<u>42,920,255</u>

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

4. Contributions *(continued)*

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

5. Transfers in

	2022 £	2021 £
Individual transfers in	536,634	1,024,087

6. Other income

	2022 £	2021 £
Claims on life assurance policy	2,296,784	2,244,080
Other income	3,657	965
	<u>2,300,441</u>	<u>2,245,045</u>

7. Benefits paid or payable

	2022 £	2021 £
Commutations and lump sum retirement benefits	4,986,825	3,185,380
Purchase of annuities	503,595	335,169
Death benefits	2,504,652	2,390,709
Taxation where lifetime or annual allowance exceeded	–	90,246
	<u>7,995,072</u>	<u>6,001,504</u>

8. Payments to and on account of leavers

	2022 £	2021 £
Refunds to members leaving service	487	–
Individual transfers to other schemes	7,335,873	9,256,748
	<u>7,336,360</u>	<u>9,256,748</u>

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

9. Administrative expenses

	2022	2021
	£	£
Administration and processing	(3,300)	(550)
Trustees fees	–	3,601
Pension Levies	–	27,867
Other fees and expenses	19,452	24,516
	<u>16,152</u>	<u>55,434</u>

The Employer paid other administration costs and the life assurance premiums as disclosed under Note 22.

10. Investment income

	2022	2021
	£	£
Interest on cash deposits	<u>34,409</u>	<u>–</u>

11. Reconciliation of investments

	Value at 31 December 2021 £	Purchases at cost £	Sales proceeds £	Change in market value £	Value at 31 December 2022 £
Pooled investment vehicles	540,426,710	56,541,244	(29,774,703)	(80,306,805)	486,886,446
Other investment balances	<u>10,703</u>			–	<u>179,346</u>
	<u>540,437,413</u>			<u>(80,306,805)</u>	<u>487,065,792</u>

Other investment balances of £179,346 (2021 - £10,703) relates to cash in transit to the investment manager.

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

12. Investment management expenses

	2022	2021
	£	£
Investment advisory fees	<u>–</u>	<u>19,305</u>

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

13. 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.

14. Pooled investment vehicles

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

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

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

The market value of investments at 31 December 2022 and 31 December 2021, by investment fund is shown in the table below:

	2022	2021
	£	£
Equity	71,519,740	76,056,694
Bond	29,237,055	42,633,984
Property	10,299,342	13,245,789
Cash	20,390,111	19,966,665
Pooled investment vehicles - Balanced	355,440,198	388,523,578
	<u>486,886,446</u>	<u>540,426,710</u>

The underlying legal structure of the above funds is summarised in note 18 on page 35.

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

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

15. Other investment balances

	2022	2021
	£	£
Other investment balances assets		
Other	179,346	10,703

16. Defined contribution assets

Defined contribution section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf the contributions are paid.

Defined contribution investment assets are allocated as follows:

	2022	2021
	£	£
Allocated to members	487,051,425	540,436,365
Not allocated to members	14,367	1,048
	<u>487,065,792</u>	<u>540,437,413</u>

17. Fair value determination

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

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

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

	At 31 December 2022		
	Level 1	Level 2	Total
	£	£	£
Pooled investment vehicles	–	486,886,446	486,886,446
Other investments	179,346	–	179,346
	<u>179,346</u>	<u>486,886,446</u>	<u>487,065,792</u>

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

17. Fair value determination (continued)

	At 31 December 2021		
	Level 1	Level 2	Total
	£	£	£
Pooled investment vehicles	–	540,426,710	540,426,710
Other investments	10,703	–	10,703
	<u>10,703</u>	<u>540,426,710</u>	<u>540,437,413</u>

18. 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 nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

18. Investment risk disclosures *(continued)*

Investment strategy

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

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

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

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

The investment strategy includes several options for members. The "Managed Lifestyle" arrangement switches members across three member funds, called Core Options, and a Cash Fund as members approach retirement. Each Core Option is made up of a variety of underlying funds, managed by different investment managers. Each Core Option also has its own risk and return objective, thereby taking account of members' changing needs as they approach retirement.

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

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

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

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

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

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

18. Investment risk disclosures *(continued)*

Scheme Risk Assessment

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

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

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

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

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

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

18. Investment risk disclosures *(continued)*

Credit risk

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

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

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

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

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

The Scheme's investments are all held in pooled investment vehicles. At the end of the year, the total value of member funds subject to direct credit risk was £487.0m (£540.3m at 31 December 2021).

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

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

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

	2022	2021
	£	£
Unit linked insurance contracts	362,805,446	404,878,529
Open ended investment companies	124,081,147	135,548,181
	<u>486,886,593</u>	<u>540,426,710</u>

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

18. Investment risk disclosures *(continued)*

Other investment risk

Currency Risk

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

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

Interest rate risk

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

The Scheme manages this risk through the following:

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

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

Other price risks

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

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

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

19. Concentration of investments

The following investments amounted to more than 5% of the total net assets of the Scheme:

	2022		2021	
	£	%	£	%
NRDC Balanced Risk Fund (N)	278,755,525	57.05	305,839,266	56.51
NRDC Lower Risk Fund (N)	70,467,638	14.42	76,255,510	14.09
NRDC Global Equity Fund	59,534,394	12.19	62,588,718	11.57
NRDC Index Linked Gilt Fund	–	–	29,210,316	5.40

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

20. Current assets

	2022	2021
	£	£
Other debtors	16,066	429,560
Cash balances	3,870,279	2,628,337
	<u>3,886,345</u>	<u>3,057,897</u>

Of the bank balance stated above, an amount of £66,841 (2021 - £73,854) was not allocated to members and represents the Special Fund.

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

21. Current liabilities

	2022	2021
	£	£
Unpaid benefits	1,035,277	933,084
Other creditors	139,666	139,667
Prepaid contributions	1,139,550	1,252,436
	<u>2,314,493</u>	<u>2,325,187</u>

NETWORK RAIL DEFINED CONTRIBUTION PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

22. Related party transactions

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

Expenses from third parties in respect of administration and investment advice (except as disclosed in notes 9 and 12 of these financial statements) totalling £1,708,939 (2021 - £1,152,682) have been paid by the Principal Employer on behalf of the Scheme. Included within this amount, fees of £35,050 (2021 - £28,601) were payable to the Trustee Director, Law Debenture Pension Trust Corporation, in respect of the services of Samantha Pitt, as Chair of the Scheme.

In addition, the cost of providing lump sum death benefits through an insurance policy of £1,998,676 (2021: £2,411,515) was met by the Principal Employer on behalf of the Scheme.

During the year, transfers in from NR CARE totalled £66,510 (2021 - £nil) and transfers out to NR CARE totalled £254,863 (2021 - £1,033,601).

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



The Network Rail DC Pension Scheme

Statement of Investment Principles

May 2022

Version Update

Version	Effective From
1.0	May 2011
2.0	June 2012
3.0	May 2013
4.0	May 2014
5.0	November 2015
6.0	December 2018
7.0	September 2019
8.0	September 2020
9.0	March 2021
10.0	May 2022

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1.0 Introduction

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

The Trustee confirms that, before preparing this SIP, it has consulted with Network Rail Infrastructure Ltd (the “Employer”) and taken appropriate advice from its Advisers. The Investment Adviser is Schroders IS Limited and the Legal Adviser is Mayer Brown International LLP, collectively termed “the Advisers”.

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

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

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

1.1 Declaration

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

Signed Samantha Pitt **Date** 25 July 2022

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

2.0 *Scheme Governance*

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

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

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

3.0 Objectives

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

The Trustee's Scheme objectives are:

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

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

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

4.0 *Default Arrangements*

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

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

Between April 2020 and September 2020, the Scheme’s Property self-select option was temporarily suspended to dealing, with member contributions over this period temporarily redirected to the Cash self-select option.

As a result, the Cash self-select option has become a default arrangement within the Scheme in respect of these members and their redirected contributions over the period set out above.

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

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

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

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

i. The kinds of investment to be held

ii. The balance between different kinds of investments

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

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

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

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

iv. Expected return on investments

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

v. Realisation of investments

Liquidity is considered in section 5.6, "Liquidity".

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

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

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

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

4.3 Best interests of members and beneficiaries

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

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

5.0 *Investment Strategy of the Scheme*

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

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

5.1 **Investment Options**

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

5.2 **Expected Return**

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

5.3 **Diversification**

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

5.4 **Active and Passive Management**

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

5.5 **Suitability**

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

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

5.6 **Liquidity**

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

6.0 *Strategy Implementation*

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

6.1 **Investment Managers**

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

6.2 **Fund Options**

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

6.3 **Investment of Contributions**

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

6.4 **Performance Objectives**

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

6.5 **Transitions**

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

7.0 *Monitoring*

7.1 **Managers**

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

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

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

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

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

7.2 **Advisers**

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

7.3 **Statement of Investment Principles**

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

7.4 Trustee Recordkeeping

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

8.0 Fees

8.1 Managers

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

8.2 Advisers

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

8.3 Custodian

There is no custodian appointed directly by the Trustee.

8.4 Trustee Directors

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

8.5 Value for Money

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

9.0 Risks

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

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

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

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

10.0 Other Risks

10.1 Corporate Governance and Stewardship Policy

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

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

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

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

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

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

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

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

<https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/The> Trustee oversees the transaction costs, including turnover costs (where available) incurred by the Investment Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations the Trustee and Investment Adviser engage with Investment Managers to understand the rationale for such deviations and take appropriate action.

10.2 Financially material investment considerations (including climate change)

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

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

10.3 Non-financial matters

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

Appendix A – Responsibilities

Trustee

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

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

Platform Manager

The main responsibilities of the Platform Manager are:

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

Investment Adviser

The main responsibilities of the Investment Adviser are:

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

Legal Adviser

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

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

Network Rail DC Pension Scheme (‘Scheme’)

Implementation Statement

1. Introduction

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

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

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

As at 31 December 2022, the Scheme’s strategy was in line with SIP. The SIP was reviewed in 2022, with the changes to the SIP finalised in July 2022.

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

The SIP was updated in July 2022 to reflect minor administrative changes not pertaining to investment strategy, engagement, stewardship or other related matters, so the commitment to reviewing the SIP at least every 3 years or following a strategy change has been fulfilled.

3. Implementation of the Trustee’s policies during the Scheme year

The table below sets out the actions taken by the Trustee over the year to 31 December 2022 in order to follow various policies within the SIP.

Key policy	Trustee actions over the Scheme year
<p>Investment governance</p>	<p>The governance structure in place is in the form of a full Trustee Board which ultimately ratifies decisions, with an Investment Sub-Committee (“ISC”) which focuses on investment matters in more detail and reports back to the Trustee Board. Any decision on investment strategy and implementation is ultimately taken at the full Trustee Board meeting.</p> <p>Both the ISC and the full Trustee Board meet at least four times over the year, with additional meetings scheduled outside the quarterly cycle if required.</p> <p>During the Scheme year the ISC, with advice from the Trustee’s investment adviser, continued to assess the self-select, default and at-retirement arrangements of the Scheme. The finalisation of these strategy changes and implementation are expected to occur in 2023. The key objectives of the investment strategy review include simplicity, lower cost and ESG integration. A planned transition to the new investment strategy for Q4 2022 was postponed in the wake of the gilts crisis, and the strategy is being reviewed for its continued appropriateness in light of those.</p> <p>The SIP sets out the roles and responsibilities of the Trustee Board and the ISC. Please refer to the ‘Trustee knowledge and understanding’ section of the Annual Governance Statement within these accounts, for detail on changes made to the Trustee Board over the Scheme year.</p>
<p>Corporate Governance and Stewardship</p>	<p>All assets held by the Scheme are held through Pooled Investment Vehicles (“PIV”). Each of the underlying managers has a custodian that holds assets in safekeeping. The Trustee takes appropriate advice from the investment adviser before making any investment decisions.</p> <p>The Trustee has set its investment adviser a set of objectives in relation to the adviser’s services. These objectives cover: demonstration of value added, delivery of specialist services, proactivity of advice, scheme management and compliance, and service standards. These were reviewed by the Trustee in December 2022 and the Trustee was generally satisfied with the performance of the investment adviser, and a detailed feedback call was held early in 2023.</p> <p>The investment managers are reviewed quarterly with regard to performance against objectives. An investment strategy review was launched in 2020 and continued throughout 2021 and 2022. The changes advised will be ratified in 2023, following a decision to postpone implementing the agreed changes in the wake of the gilts crisis</p> <p>The Trustee carries out an annual value for members review, the conclusions of which are set out in the DC governance statement within these accounts.</p> <p>in the 2021 Implementation Statement, the Trustee identified a number of areas to enhance its stewardship activities for 2022:</p> <ul style="list-style-type: none"> • Reviewing the investment managers latest ESG-related policies and annual responsible investment reports • Meet with investment managers who have most material influence over voting and engagement of the Scheme’s assets, in particular, the equity manager • Consider the Trustee’s engagement priorities. <p>Over the Scheme year, the Trustee achieved the following:</p> <ul style="list-style-type: none"> • Met the Scheme’s platform provider, which also manages a material proportion of Funds within the Scheme’s investment strategy (in particular within equities), to understand its approach to voting and engagement. The Trustee reviewed the platform provider’s documentation

	<ul style="list-style-type: none"> • Reviewed and discussed the draft implementation statement including voting and engagement activity of underlying managers before approving it • Beginning work on setting engagement priorities for the Trustees’ own stewardship activities (which continued into early 2023) <p>For the year ahead, the Trustee intends to meet another investment manager and finalise work on setting engagement priorities, which will include an update to the SIP to reflect these.</p>
Financially material factors specifically ESG and climate change	<p>The Trustee considers ESG factors when reviewing the investment strategy and in appointing and reviewing investment managers. The Trustee’s expectations for any current or future investment manager depends on the asset class involved, the degree of discretion given to the investment manager, and the time horizon over which the Trustee expects to hold the investment.</p> <p>Within the most recent investment strategy review, ESG has been explicitly considered in a number of areas including the overall approach to integrating ESG, the ESG ratings of various investment managers/strategies to aid in decision making, and the introduction of an explicit ESG tilted equity fund to the Scheme’s investment strategy. The implementation of the latter as part of wider strategy changes has been delayed, as noted above.</p> <p>Over the year, the Trustee also received a number of training sessions from its investment advisor on the following issues:</p> <ul style="list-style-type: none"> • Refresher training on understanding ESG governance reporting • Forthcoming ESG regulations • The investment advisor’s own engagement priorities and their views on which are most financially-material <p>The Trustee monitors the Scheme’s exposure to ESG risk factors on a quarterly basis, as part of ongoing investment governance.</p>
Monitoring	<p>Over the year the Trustee monitored the performance of the underlying managers, and the strategy as a whole, on a quarterly basis. The Trustee is satisfied the strategy performed as expected during this period in the context of the market conditions. It was noted that rising inflation is a challenge to relative performance.</p>
Risk management	<p>The Trustee manages risk in aggregate through a risk register. Risks within each section are monitored in a combination of ways. Risks associated to the investments are set out below:</p> <ul style="list-style-type: none"> • Value for money risk • Inflation risk • Conversion risk • Capital risk • Active manager risk • Platform risk • Manager risk • Communication risk • Inappropriate member decision • Organisational risk • Liquidity risk • Environmental, Social and Governance (“ESG”) and climate change risks <p>The Trustee’s Audit and Risk Committee (“ARC”) monitors these risks on a quarterly basis. The ARC reviews the risk register annually, with the latest review taking place in November 2020.</p> <p>The Trustee regularly reviews ESG risks, including climate change. The Trustee reviews ESG reporting every quarter as part of the investment governance process. This report includes an ESG score of</p>

	<p>blended funds within the default strategy against representative benchmarks. It also includes a number of metrics for climate change risk (such as absolute greenhouse gas emissions).</p>
<p>Non-financially material factors</p>	<p>The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.</p>
<p>Default investment strategy and self-select range</p>	<p>The Trustee's objective is to make available a number of investment options that provide members with access to a range of different asset classes that differ in their level of investment risk and expected return. The Trustee provides a default investment strategy for members that do not want to make their own choices, and a range of self-select funds.</p> <p>Default investment strategy</p> <p>In designing the default strategy, the Trustee's focus is on member needs and outcomes. The Trustee believes the default strategy is in the best interest of members and beneficiaries, and undertakes periodic reviews on the suitability of the strategy.</p> <p>The Trustee reviewed the default strategy in full during the 2021 and 2022 Scheme years with the outcomes to be reviewed and implemented in 2023, following delays to implementation due to the gilts crisis</p> <p>Self-select fund range</p> <p>During 2021, within the self-select range, the Trustee decision to amend the underlying manager allocation within the NRDC Property Fund was implemented. No other changes were made to the Scheme's investment strategy.</p> <p>A formal review of the self-select fund was conducted in the 2021 and 2022 Scheme year with the outcomes to be reviewed and implemented in 2023, following delays to implementation due to the gilts crisis</p> <p>ESG considerations</p> <p>ESG has been explicitly considered in a number of areas including the overall approach to integrating ESG, the ESG ratings of various investment managers/strategies to aid in decision making, the introduction of an explicit ESG tilted equity fund to the Scheme's investment strategy, and a self-select active equity Fund which incorporates ESG within the investment process.</p>

<p>Strategy implementation</p>	<p>Investment platform</p> <p>The Trustee delegates the day to day management of the assets to various investment managers. These managers are accessed through the Legal & General (“L&G”) platform. L&G were appointed as platform to the Scheme in 2020. Aspects of implementation related to administration, investment of contributions and transitions are reviewed annually by the Trustee as part of its value for members assessment. Details of this are set out in the Chair’s Statement within these report and accounts.</p> <p>Investment of ongoing contributions</p> <p>The Trustee receives quarterly reports from the Scheme’s member administrator which enable it to monitor the administration service and, in particular, that agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.</p> <p>Ongoing investment governance</p> <p>Over the Scheme year the Trustee received quarterly information on the performance of the investment strategy from its investment advisers. This information was formally reviewed at each quarterly Trustee meeting and discussed with the investment advisers. During these discussions the Trustee ensured it was clear how the funds had performed and how this had impacted Scheme members.</p> <p>The Trustee is comfortable the investment strategy performed as expected during the Scheme year, given wider market conditions, but notes the challenges posed by the gilts crisis, particularly for members in the Default closer to retirement who have a greater proportion of gilts within that part of the investment strategy.</p> <p>Active and passive management</p> <p>The Trustee has chosen to incorporate an element of active management within the default arrangement, where active management is deemed to add value (in particular by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement’s funds). The default arrangement’s funds during the growth phase of the lifestyle profile therefore reflect both active and passive underlying funds, and are governed against inflation-related long term return targets.</p> <p>The split between active and passive managers was considered as part of the investment strategy review.</p> <p>Transitions</p> <p>Over the scheme year there were no transitions. Planned strategy changes were postponed in the wake of the gilts crisis.</p>
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4. Voting and Engagement Summary

The Trustees have followed their policy on voting and engagement as set out in the Statement of Investment Principles over the year to 31 December 2022.

The Trustees' investment adviser is Schroders Solutions, part of Schroders plc.

The Scheme's investments are made via pooled investment funds via the Platform Manager, Legal & General ("L&G"), in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, monitoring and voting, whether for corporate governance purposes or other financially material considerations, is delegated to the underlying investment managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their underlying Manager holdings to the Platform Manager, which implements its fund voting policy. The Trustee met the Platform Manager in May 2022 to discuss their voting and engagement policies.

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

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

This summary has been completed over the year to 31 December 2022 and where applicable, underlying managers have provided examples of engagement.

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

Summary

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

- The L&G platform did not vote on behalf of the Trustee. This is common practice in the industry. However, we continue to challenge L&G on behalf of the Trustee on developing their engagement program.
- Of the managers, the majority showed significant votes and engagement with underlying companies, in respect of executive remuneration and climate change matters, with a growing number of examples provided in natural capital/biodiversity. The amount of engagement in respect of Social matters, such as equality, diversity and workers rights, appears to have made further progress relative to previous years.

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

Default Strategy

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

Asset class	Fund name	Maximum allocation within default investment strategy (as at 31 Dec 2022)
Equity	LGIM World Equity Index	16.3%
	LGIM World Equity Index (GBP Hedged)	9.2%
Multi-asset	BlackRock DC Diversified Growth Fund	5.0%
	LGIM Multi-Asset Fund	17.0%
	Newton (BNY Mellon) Real Return	10.0%
	PineBridge Global Dynamic Asset Allocation	10.0%
Bonds	BNY Mellon Absolute Return Bond	8.5%
	LGIM Investment Grade Corporate Bond All Stocks Index	21.3%
	LGIM Pre-Retirement Fund	37.5%
	PIMCO US High Yield (GBP Hedged)	13.0%
Cash	LGIM Cash Fund	25.0%

The DC Section's assets are held via the L&G investment platform and as such, L&G holds the voting rights for the DC Section's underlying pooled funds (at that fund manager level, not the underlying companies in which that manager may invest). Over the year to 31 December 2022, L&G did not undertake any voting activity in respect of the pooled funds held on its investment platform.

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

Voting and engagement data

Equity

Legal and General Investment Management (LGIM) – World Equity Index (both Hedged and Unhedged versions of the Fund)

Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2022	3,113	38,295	100%	79%	1%

Most significant vote(s) and examples of Engagement

Exxon Mobil Corporation:

LGIM voted in favour for a resolution 9 for the company to set greenhouse gas emissions (“GHG”) reduction targets consistent with Paris Agreement goal. The rationale for the voting decision was:

- A vote for is applied in the absence of reductions targets for emissions associated with the company’s sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal.
- LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
- About 27% of shareholders voted in favour of the resolution.
- This vote was considered to be significant as LGIM see it as an escalation of its climate-related engagement activity and its public call for high quality and credible transition plans to be subject to a shareholder vote.

Multi-asset

BlackRock – DC Diversified Growth Fund

Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2022	895	11,842	92%	94%	1%

Most significant vote(s) and examples of Engagement

BlackRock use Institutional Shareholder Services’ (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

J Sainsbury plc:

BlackRock voted against the shareholder proposal on Living Wage Accreditation. The rationale for this voting decision was:

- BlackRock supports companies paying their workers a wage equal to or above current real living wage rates, and BlackRock engage with boards and management on their approach to ensuring their company is best placed to recruit and retain the workers on which they depend for their success.
- However, BlackRock did not support the shareholder proposal. In their view, worker pay policies and rates should be determined by company management, with reference to relevant regulations and board oversight. BlackRock do not believe it is consistent with its clients' long-term interests to legally bind J Sainsbury plc to peg their pay levels to those set by the Living Wage Foundation, as the passing of the shareholder proposal would require. In BlackRock's view, it is not the role of shareholders to direct company management to cede control of a key decision, core to the company's ability to deliver their strategy and balance the interests of all stakeholders, to a third-party.
- Sainsbury's have demonstrated over time their willingness to respond to changing stakeholder expectations and have a strong track record of offering above-market employee benefits. They recently enhanced their pay policies so all direct employees receive the real living wage appropriate to the region in which they live. BlackRock encourage Sainsbury's to continue to engage with their supplier partners to also pay the real living wage to contract workers'.

Given the importance of frontline workers to the company's success, BlackRock will continue to engage with Sainsbury's on their approach to human capital management.

Meta Platforms Inc.:

BlackRock voted for the shareholder proposal for Meta to publish an independent third-party Human Rights Impact Assessment (HRIA), examining the actual and potential human rights impacts of Facebook's targeted advertising policies and practices throughout its business operations. The rationale for this voting decision was:

- BlackRock believe shareholders would benefit from a third-party assessment of the human rights impacts of Meta's advertising practices given the importance of advertising to the company's ability to generate long-term financial returns.
- BlackRock encourage companies to disclose how they integrate human rights considerations into their operations and risk management processes and identify the steps they are taking to address these issues. BlackRock recognise that exposure to human rights-related risks varies by company, industry, and geographic location. BlackRock appreciate when companies implement processes to identify, manage, and prevent adverse human rights impacts that could expose them to material risks, and provide robust disclosures on these practices.

Meta has joined the United Nations Global Compact and adopted a corporate human rights policy which, among other elements, commits to human rights due diligence in accordance with the United Nations Guiding Principles (UNGP) on Business and Human Rights. The company publishes third-party human rights assessments on specific business segments through an independent HRIA, however, they have not publicly communicated plans to publish a comprehensive third-party human rights assessment for Facebook across their advertising platform. In BlackRock's view, a third-party assessment would help investors and other stakeholders better understand how Facebook's advertising practices may create material business risks.

Alphabet, Inc.:

BlackRock voted for the shareholder proposal for Alphabet to report on metrics and efforts to reduce water related risk. The rationale for this voting decision was:

- BlackRock supported this shareholder proposal because, in their assessment, shareholders would benefit from more information on the company's approach to water dependencies and impact.
- Engaging on water risks is an increasingly important topic for BlackRock. BlackRock appreciate when companies disclose their policies on water, waste, and materials, including their approach to identifying and managing water scarcity and pollution-related risks. BlackRock also find it useful when companies disclose their water stewardship strategy, with a focus on facilitating sustainable water security for their business and for the communities in which they operate.
- BlackRock believes water management is a material risk for Alphabet given the significant volumes of water used to cool data centres. The company recently enhanced their water metrics disclosure to include three water indicators (total water withdrawal, consumption, and discharge), in line with industry standards. Alphabet has a goal to replenish more water than the company consumes by 2030

The company does not explicitly disclose annual water use or other risk metrics by location. Notably, Alphabet's peers provide this level of information. For these reasons, BlackRock supported this shareholder proposal as they believe it is in the best economic interests of clients for Alphabet to enhance their disclosure on this material long-term business risk.

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

Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2022	9,721	98,831	100%	77%	1%

Most significant vote(s) and examples of Engagement

Royal Dutch Shell Plc:

LGIM voted in line with management against resolution 20 - the approval of the Shell Energy Transition Progress Update.

The rationale of the voting decision was:

- LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remain concerned by the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.
- About 80% of shareholders supported resolution 20.
- LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

Newton (BNY Mellon) – Real Return Fund

Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2022	75	1,270	100%	89%	0%

Most significant vote(s) and examples of Engagement

Anglo American

Newton met the chair of the remuneration committee in the context of the appointment of both a new CEO and a new remuneration committee chair, and the start of a new remuneration cycle. Newton were generally comfortable with the remuneration committee's proposed policy.

Remuneration policy changes:

- The remuneration committee evaluated the current remuneration policy and outcomes and is generally comfortable with its application, but made two notable changes. The long-term incentive plan (LTIP) cap was increased in order to attract and retain talent, as the committee believed the policy lagged peers on this front. Newton conveyed the need to be conservative on benchmarking as it would have an inflationary effect on remuneration arrangements. Newton note, however, that the basic salary for the current CEO is lower than that of the previous CEO. The second change is the removal of a legacy arrangement designed to cap maximum LTIP payouts in order to mitigate cyclical impacts on pay. The committee will now apply its own discretion and is confident its application will be appropriate.

ESG and remuneration:

- Newton cautioned the board to be mindful of potential negative publicity in the context of a cyclical increase in executive remuneration outcomes against the backdrop of the wider cost-of-living crisis, and the potential shareholder dissent which may follow. The response from the remuneration committee chair was reassuring, notably with respect to the operations in South Africa, where the board is very mindful of the situation and is putting in place fair and inclusive compensation arrangements.

Newton also conveyed that the ESG measures in the LTIP should be quantitative, easily calculable, and aligned to the longer-term sustainable strategy of the company. Newton will monitor the remuneration policy proposal at the next AGM.

PineBridge – Global Dynamic Asset Allocation Fund

Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2022	682	9,304	81%	90%	0%

Most significant vote(s) and examples of Engagement

Berkshire Hathaway Inc.

PineBridge voted against management for the resolution to report on effectiveness of diversity equity and Inclusion efforts and metrics. The rationale for the voting decision was that PineBridge believe there is currently an absence of information regarding comprehensive company diversity-related policies, programs or metrics; and the potential benefits for shareholders of increased reporting of diversity-related efforts and program effectiveness.

Bonds

BNY Mellon (Insight) – Absolute Return Bond

Most significant examples of Engagement

EDF

- This engagement was identified through Insight's targeted climate engagement programme due to the size of EDF's Scope 1 and 2 emissions. The purpose of this engagement was to understand EDF's approach to decarbonisation, to supplement Insight's assessment of whether they are on a Net Zero pathway.
- EDF has set a Net Zero by 2050 target. Its decarbonisation strategy (the 'Sustainable Business Roadmap') sets out the step-by-step process for EDF to meet its Net Zero target. EDF has set a science based target (approved by SBTi) to reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a 2017 base year. EDF group commits to reduce absolute scope 3 GHG emissions from use of sold product by 28% by 2030 from a 2019 base year.
- To support the decarbonisation process, EDF will be completely coal free in Europe by 2026 and by 2030 in the rest of the world. Only 0.6% of generation is from coal, currently. The coal exit strategy has not changed following the events in Russia. EDF shut down its remaining coal plant in the UK in 2022. There is 1 plant in France, but the outputs are limited.

EDF's carbon intensity is 90% lower than the peer average. This is driven by the high proportion of nuclear energy used, which, although it has a number of safety concerns, it is very low carbon. It is also increasing renewables, with particular focus on solar. No specific improvement areas identified, however EDF's ageing reactors pose potential risks of nuclear plant outages / early shutdowns due to issues such as cracks in the graphite core. It also has heightened safety risk due to the large proportion of nuclear energy used, and EDF continues to look to open new nuclear energy locations.

Whilst it appears that these risks are well managed, Insight will closely monitor EDF's performance in these areas, in addition to its progress towards its net zero goal. SBTi has certified EDF's near term target to being 'well below' 2 degrees, and it has committed to getting its Net Zero targets certified.

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

Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.

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

Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.

PIMCO – US High Yield Bond Fund (GBP Hedged)

Most significant examples of Engagement

British multinational retailer

- PIMCO has spoken with the issuer on various topics including agricultural emissions in context of its net zero goal, deforestation, and human and labour rights.
- The Issuer’s Head of Sustainability addressed a recent labour rights dispute regarding unfair payment for seasonal foreign workers in UK farms, explaining that the issuer is conducting due diligence, has identified the source of concern, is collaborating with industry associations to investigate, and plans on constructing a corrective action plan. PIMCO found prompt and sufficient response on labour rights controversies (i.e. seasonal workers in UK farms and Uyghur forced labour risks in supply chain) and enhancement in its due diligence (e.g. exploring technologies to enhance material traceability). In terms of agricultural emissions, they are focusing on soy and palm oil for their zero net deforestation goal, since their cocoa and beef usage is limited.
- Issuer is partnering with other members of the Modern Slavery Intelligence Network and the British Retail Consortium to drive effective ways of addressing labour rights disputes in the food and agricultural sector through systemic changes. They are exploring SLB issuance with links to public targets, potentially related to Scope 3 emissions, zero deforestation, food waste, or packaging

Cash

Legal and General Investment Management (LGIM) – Cash Fund

Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.