The Network Rail CARE Pension Scheme

Statement of Investment Principles – V11

May 2023

Version Update

Version	Effective From	
1.0	November 2008	Initial version
2.0	August 2010	Revision to reflect update to strategy
3.0	May 2012	Annual review
4.0	November 2013	Revision to reflect update to strategy
5.0	November 2015	Revision to reflect update to strategy
6.0	February 2017	Revision to reflect update to Liability Benchmark and Investment Fund mandate to incorporate ETFs
7.0	February 2018	Revision to reflect decision to allow use of active equity funds within the Investment Fund
8.0	September 2019	Revision to reflect ESG update
9.0	September 2020	Revision to reflect update to Corporate Governance and Stewardship approach
10.0	March 2022	Revision to reflect updated return targets and language regarding climate change
11.0	May 2023	Revision to update engagement priorities

Table of Contents

Version Update 2

1.0 Introduction 4

2.0 Scheme Governance 6

3.0 Investment Objectives..7

4.0 Investment Strategy 8

5.0 Strategy Implementation 10

6.0 Monitoring 12

7.0 Fees..14

8.0 Risks 15

9.0 Other Issues 18

Appendix A - Responsibilities 22

1.0 Introduction

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Network Rail CARE Pension Scheme ("the Scheme"). It describes the investment policy being pursued for the Scheme by the Directors of Network Rail Pension Trustee Limited ("the Trustee" of the Scheme) and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the 2001 Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Douglas Primrose of XPS Pensions, the Investment Adviser is Schroders IS Limited and the Legal Adviser is Mayer Brown LLP. They are collectively termed "the Advisers".

The Trustee confirms that, before preparing this SIP, it has consulted with Network Rail Infrastructure Ltd ('the Employer') and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser. The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge, and experience of the management of the investment arrangements that the Scheme requires. The Trustee also confirms that it will consult with the Employer and take advice from the relevant Advisers as part of any review of this SIP.

The Trustee is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives written advice from the relevant Advisers first and it believes that this, together with the Trustee Directors' own collective expertise, ensures that it is appropriately familiar with the issues concerned.

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

1.1 Declaration

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

Signed Samantha Pitt . . . . **Date** 17 July 2023 . . . .

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

2.0 Scheme Governance

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

The Trustee has appointed an Investment Sub-Committee (the 'ISC') to deal with investment matters on its behalf. The ISC deals with day to day investment matters and acts as a coordinator between the Investment Adviser, Managers and the Trustee. The ISC makes recommendations to the Trustee. In circumstances deemed to be exceptional, the ISC may make decisions on behalf of the Trustee. The ISC maintains a Statement of Investment Arrangements ("SIA") which sets out the specifics of investment implementation. This document is referred to later in this SIP.

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

3.0 Investment Objectives

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

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

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

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

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

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

4.0 Investment Strategy

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

4.1 General Policies

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

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

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

4.2 Asset Allocation

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

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

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

4.3 Rebalancing Policy

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

4.4 Rates of Return

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

4.5 Diversification, Mandate Definition and Constraints

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

4.6 Suitability

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

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

4.7 Liquidity

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

5.0 *Strategy Implementation*

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

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

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

5.1 Mandates and Performance Targets

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

5.2 Manager Appointments

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

5.3 Diversification

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

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

5.4 Suitability

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

5.5 Custody

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

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

6.0 Monitoring

6.1 Managers

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

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

- Is carrying out his work competently. The Trustee will evaluate the Manager based on, amongst other things:
    - Each Manager's performance versus their respective benchmarks.
    - The level of risk within the portfolios given the specified risk tolerances.
- Has regard to the need for diversification of investment holdings in accordance with the Investment Management Agreement or Fund Offering Documents.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising his powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

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

6.2 Asset Allocation Manager

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

Team/People

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

Investment Process

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

Performance/Risk

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

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

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

6.3 Advisers

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

6.4 Statement of Investment Principles

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

6.5 Trustee

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

7.0 Fees

7.1 Manager

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

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

7.2 Advisers

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

7.3 Custodian

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

7.4 Trustee Directors

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

8.0 Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9.0 Other Issues

9.1 Statutory Funding Requirement

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

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

9.2 Corporate Governance and Stewardship

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

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

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

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

The Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

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

The Asset Allocation Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Asset Allocation Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Asset Allocation Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Asset Allocation Manager, as detailed above.

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

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

Following an exercise to understand the Asset Allocation Manager's priority themes for engaging with Underlying Managers and undertaking a survey of the Trustee Board to understand its own priorities when engaging with the Asset Allocation Manager, the Trustee has set the following engagement priorities:

- Climate
- Human Rights
- Human Capital Management

The Asset Allocation Manager will also report annually on how it has engaged on the Trustee's behalf in respect of these priorities with the Underlying Managers.

9.3 Financially material investment considerations (including climate change)

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

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

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

9.4 Non-financially material investment considerations

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

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

9.5 Additional Voluntary Contributions (AVCs)

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

Appendix A - Responsibilities

Trustee

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

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

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

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

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

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

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

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

VIII. Assessing the ongoing effectiveness of the relevant Advisers.

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

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

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

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

Managers

The main responsibilities of the Managers are:

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

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

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

III. Informing the Trustee immediately of:

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

Investment Adviser

The main responsibilities of the Investment Adviser are:

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

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

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

b) Advising the Trustee on the Investment Objective.

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

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

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

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

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

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

Scheme Actuary

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

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

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

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

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

Custodian

The main responsibilities of the Custodian are:

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

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

III. Processing all tax reclaims in a timely manner.

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

Legal Adviser

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

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