



The Network Rail CARE Pension Scheme (AVC Section)

Statement of Investment Principles

September 2024

Version Update

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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 occupational pension schemes. It relates specifically to the AVC section (the “AVC Section”) of the Network Rail CARE Pension Scheme (the “Scheme”) and should be read in conjunction with the SIP relating to the main section (the “Main Section”) of the Scheme. This SIP describes the investment policy being pursued for the AVC Section by the Directors of Network Rail Pension Trustee Limited (the “Trustee”). It is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (the “2001 Myners Principles”). It 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 and AVC 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 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 AVC Section 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 AVC Section’s assets, but the day-to-day management has been delegated to the Platform Manager (who provides the platform investments) and the underlying investment managers. Where it is required to make an investment decision, the Trustee always receives advice from the relevant Advisers first in order to achieve an appropriate level of understanding of 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 AVC Section 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 AVC Section are invested in accordance with these Principles.

Signed Samantha Pitt Date 12 September 2024
For and on behalf of the Trustee of the Network Rail CARE Pension Scheme

2.0 Scheme Governance

The Trustee is responsible for the governance and investment of the AVC Section's assets. It considers that the governance structure set out in this SIP is appropriate for the AVC Section, 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 AVC Section'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, Manager 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 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 for their AVC investments 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 overarching objective for the AVC Section is

- To provide an AVC facility 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 investment 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 and strong ongoing governance.

In aiming to meet these 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 achieve a balance between:
 - Maximising the value of members' assets at retirement;
 - Maintaining the purchasing power of members' savings; and
 - Protecting the value of accumulated assets.
- To avoid over-complexity in the fund range in order to keep administration costs and member understanding to a reasonable level.
- To consider environmental, social and governance ("ESG") factors and stewardship in the context of long term performance.

4.0 Investment Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives and the members of the AVC Section, 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 Appendix B.

The Trustee will instruct the Administrator (defined in Section 5: Strategy Implementation) to invest each member's investments in accordance with the fund options selected by the member.

Recognising the nature of AVC investment, the Trustee has chosen not to select a default arrangement for the AVC Section.

4.1 Investment Options

A range of funds has been made available to provide individual members with a choice of asset classes and regions. These are detailed in Appendix B.

4.2 Expected Return

The target objectives for each fund are set out in Appendix B.

4.3 Diversification

The choice of investment options for members 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.

4.4 Active and Passive Management

The Trustee has selected an Investment Manager who can offer both active and passive fund options for members.

4.5 Suitability

The Trustee has taken advice from the Investment Adviser that the range of investment options offered to members is suitable. Members are responsible for choosing which of the funds are most appropriate 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 will be reviewed regularly.

4.6 Liquidity

The AVC Section's assets are held in asset classes that are considered sufficiently liquid.

5.0 Strategy Implementation

5.1 Investment Managers

The Trustee has decided to delegate the day-to-day investment of the AVC Section's assets to professional 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 AVC Section. Full details are listed in Appendix B.

5.2 Administrator

Administration is provided by Willis Towers Watson ("WTW").

5.3 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 Appendix B.

5.4 Investment of Contributions

A member's contributions will be invested in line with their selected choice of funds. The range of funds available to members is detailed in Appendix B.

5.5 Performance Objectives

The objectives can be found in Appendix B.

5.6 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 Advisers in relation to different transition methods and other ways in which these potential risks/costs can be mitigated.

6.0 Monitoring

6.1 Managers

The Trustee, or the Investment 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 Investment 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 AVC Section.

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:
 - Each Investment Manager's performance versus its respective benchmarks or Trustee specified 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 Fund Offering Documents or Agreements.
- 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.

6.2 Advisers

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

6.3 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, 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 Investment Manager or Adviser as part of such a review.

6.4 Trustee Recordkeeping

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 Managers

Fees are charged as a proportion of the size of assets invested. The charges have been negotiated and will continue to be reviewed regularly. Details of the fund charges are set out in Appendix B.

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

There is no custodian appointed directly by the Trustee.

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.

7.5 Value for Money

The Trustee reviews all sources of fees levied on members' accounts (including management charges, additional expenses and administration, as appropriate) to ensure value for money is present. The Trustee considers, among other items, the absolute level of charges, the competitiveness of the AVC Section's charges relative to the marketplace and the levels of service provided by each of the Advisers and Managers.

8.0 Risks

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

- i. **Value for money risk** – the risk that the AVC Section fails to offer value for money to members. This is addressed through regular reviews of the charges levied on members' assets.
- 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 AVC 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 fund options that aim to reduce the risk of large asset 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 tax-free cash sum 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 AVC Section'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 Advisers in relation to active asset allocation. The Trustee monitors performance on a quarterly basis.
- 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 Advisers 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 AVC Section. 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. ESG risks** – the risk of adverse performance due to environmental, social and governance (“ESG”) related factors including climate change. This is addressed by ESG assessment at the point of investment with the Investment Managers where applicable, or by requesting information on the ESG policies, adopted by the Managers.

The importance of each risk varies with time. Inflation risk is important throughout the whole period to retirement whereas pension purchase risk and capital risk become significant as retirement approaches.

The Trustee, in conjunction with the Advisers, has chosen a range of investment options designed to provide members with a sufficient level of flexibility in their fund choices. The Trustee is also aware of the importance of the safe custody of members’ funds, to safeguard the security of their investments and this is reviewed regularly by the Advisers in conjunction with the Trustee.

In addition to the risks noted above, the Trustee also recognises the options it has selected are subject to underperformance risk. This is addressed through providing options with appropriate diversification and through regular monitoring of the active managers’ performance, processes and capabilities with respect to their mandate.

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

9.0 *Other Risks*

9.1 **Corporate Governance**

The Trustee and the Investment Managers have agreed, and will maintain, formal Manager Agreements and fund documentation setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters.

As part of the appointment of the Investment Managers to the AVC Section, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of each Investment Manager's activities, their charging basis and other relevant matters. The appointment of the Investment Managers is ongoing.

The AVC Section's investments are made via pooled investment funds, in which the AVC Section'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 to its underlying managers.

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 Investment Advisor and Trustee 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.
- 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 AVC Section'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 does not monitor portfolio turnover cost in detail. However, in future the Trustee may ask managers to report on portfolio turnover costs.

Though the Trustee does not currently define target portfolio turnover ranges for funds, they will engage with managers if the portfolio turnover is higher than expected as a result of the monitoring undertaken.

9.2 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 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 AVC 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.

9.3 Non-financial matters

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 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, the content of this SIP and modifying it if deemed appropriate.
- ii. Reviewing the investment policy for the AVC Section in terms of providing a range of funds from which members may choose to invest (see Appendix B).
- iii. Assessing the quality of the performance and process of the Investment Manager 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 Investment Managers.
- vi. Assessing the performance of the Advisers.
- vii. Consulting with the Company when reviewing investment policy issues.
- viii. Providing any appointed organisations/individuals with a copy of the SIP, 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 AVC Section's Investment Managers that could affect the interests of the AVC Section.
- iii. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the AVC Section.
- iv. Undertaking reviews of the AVC Section's investment arrangements including reviews of the current Investment Managers, and selection of new managers as appropriate.

Legal Adviser

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

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

Appendix B – Investment Options

Under the Scheme's Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. The Trustee has selected a range of investment funds with Legal & General Investment Management for the AVCs to be invested in. The Trustee reviews these arrangements regularly having regard to their performance, the objectives and the views of the relevant Advisers.

There are several investment options that members can choose from, which allow them to determine the appropriate mix of investments based on their own attitude to risk, term to retirement and investment objective.

The Trustee may vary the investment options and investment managers from time to time in response to changing market conditions and manager developments. This may include the use of derivatives for annuity risk management purposes. The individual funds offered to members as at the date of this SIP are set out in more detail in the following table:

	Investment option	Target Objective	TER* p.a.	Active/P assive
LGIM	Multi-Asset Fund	ABI UK Mixed Investment 40%-85% Pension Sector	0.15%	Active
BlackRock	Global Equity Fund	50% MSCI World ESG Focus Low Carbon Screened Index 50% MSCI World ESG Focus Low Carbon Screened Index (100% GBP Hedged)	0.15%	Passive
LGIM	UK Equity Fund	FTSE All-Share Index	0.05%	Passive
LGIM	Global Emerging Markets Equity Fund	S&P/IFCI Composite Global Emerging Markets Index	0.25%	Passive
LGIM	Active Aggregate All Stocks 50:50 Fund	50% FTSE Actuaries Government UK Conventional Gilts All Stocks Index and 50% Markit iBoxx £ Non-Gilt Index	0.20%	Active
LGIM	Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	0.04%	Passive
LGIM	Property Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index	0.72%	Active
LGIM	Cash Fund	SONIA	0.05%	Active
Baillie Gifford	Positive Impact Equity Fund	Outperform MSCI ACWI Index	0.51%	Active

LGIM	Infrastructure Equity Fund	FTSE Developed Core Infrastructure Index	0.25%	Passive
HSBC	HSBC Islamic Global Equity Fund	DJ Islamic Market Global Titans 100 Index	0.33%	Passive

* Total Expense Ratio (includes Manager AMC and Manager additional expenses) are shown as at 7 August 2024.