



# The Network Rail CARE Pension Scheme

**Statement of Investment  
Arrangements – V8**

September 2024



## *Version Update*

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| <b>Version</b> | <b>Effective From</b> |   |
|----------------|-----------------------|---|
| 1.0            | November 2015         | Initial version   |
| 2.0            | February 2016         | Revision to reflect change in governance structure  |
| 3.0            | February 2017         | Revision to reflect change in Liability Benchmark   |
| 4.0            | February 2018         | Revision to reflect changes to Investment Fund restrictions and new EDOS  |
| 5.0            | July 2020             | Revision to reflect changes to Growth Assets restrictions, the fiduciary fee basis, Growth Assets performance benchmark, amended terminology within the IMA and new EDOS parameters |
| 6.0            | March 2022            | Revision to reflect updated performance targets, changes to Growth Assets restrictions, updated fee basis and EDOS  |
| 7.0            | September 2023        | Revision to reflect updated investment strategy and Dynamic Growth Assets parameters  |
| 8.0            | September 2024        | Revision to EDOS language and liability hedging basis details, which will help to futureproof the document  |

## *Table of Contents*

|     |                                  |    |
|-----|----------------------------------|----|
| 1.0 | Introduction .....               | 4  |
| 2.0 | Strategic Asset Allocation ..... | 5  |
| 3.0 | Manager Mandates .....           | 6  |
| 4.0 | Fees .....                       | 10 |

## ***1.0 Introduction***

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The Statement of Investment Arrangements (SIA) is a document reviewed by the Trustee of the Network Rail CARE Pension Scheme and is maintained by the Investment Sub-Committee (ISC). The SIA should be read in conjunction with the Scheme's Statement of Investment Principles (SIP).

The SIA's purpose is to:

- Detail the Scheme's investment strategy;
- Provide a snapshot of the Scheme's investment portfolios;
- Provide information on the asset managers mandated by the Scheme and on their mandates and fee bases;

## 2.0 Strategic Asset Allocation

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The long-term strategic allocation of the Scheme is as follows (the actual allocation may vary in the shorter term due to market movements):

|   | %  |
|---|----|
| Liability Hedging assets (consisting of both gilts and swaps) | 10 |
| Growth Assets   | 90 |
| ➤ <i>Dynamic Growth Assets</i>                                | 60 |
| ➤ <i>Equity Derivative Overlay Structure Portfolio</i>        | 30 |

The Trustee has set the following quantifiable objectives for the Scheme’s investment strategy:

|  | Objective                        |
|--|----------------------------------|
| Growth Assets                                | SONIA + 4.625% p.a.              |
| Total Fund including Liability Hedge Overlay | Liability Benchmark + 4.05% p.a. |

### 3.0 *Manager Mandates*

The Trustee has appointed two Managers: Schroders IS Limited (“Schroders”, formerly River and Mercantile Investments Limited), and Legal and General Investment Management (“LGIM”, the “Policy Manager”) to manage the assets of the Scheme

#### **Schroders**

The terms of engagement for Schroders are set out in their Investment Management Agreement. These include the following:

|                                 |   |
|---------------------------------|---|
| <b>Overall Fund</b>             |   |
| <b>Time Horizon</b>             | Rolling three-year periods  |
| <b>Liability Hedging Assets</b> |   |
| <b>Objective</b>                | To reduce the interest rate and inflation risk inherent in the liabilities including an estimate of accrual. This has regard to both the gilts in the liability hedging assets and gilts underlying the EDOS. It is approximately equal to the amounts outlined in Section b - Liability Hedge Overlay Restrictions |
| <b>Growth Assets</b>            |   |
| <b>Objective</b>                | The return on SONIA + 4.625% p.a.<br>For the purposes of the overall Growth Assets performance, this includes the Equity Derivative Overlay Structure Portfolio.  |

The parameters and restrictions for each component is detailed further below:

#### **a. Growth Assets Restrictions**

The Investment asset class restrictions are set out below and are expressed as a percentage of the Dynamic Growth Assets:

|   | <b>Minimum %</b> | <b>Maximum %</b> | <b>Permitted Investment</b> |
|---|------------------|------------------|-----------------------------|
| Equities  | 25               | 75               | Any                         |
| Return seeking credit   | 0                | 60               | Any                         |
| Alternatives  | 0                | 40               | Any                         |
| Property  | 0                | 20               | Any                         |
| Commodities   | 0                | 15               | Any                         |
| Cash & sovereign bonds  | 0                | 50               | Any                         |
| <b>Additional Constraints (in respect of the asset classes above)</b> |                  |                  |                             |

Statement of Investment Arrangements –September 2024

|   |  |    |    |  |
|---|--|----|----|--|
| Equities                                | BNY Mellon (River and Mercantile Global Equity Fund) | 0  | 75 |  |
|   | Funds that are not Passive Funds                     | 0  | 20 |  |
| Equities plus Commodities               |  | 25 | 80 |  |
| Equities plus Sub Investment Grade Debt |  | 25 | 90 |  |
| Sub Investment Grade Debt               |  | 0  | 40 |  |
| Illiquid investments                    |  | 0  | 20 |  |

Exposure to the above asset classes may be obtained through direct investments, Funds including In-House Funds, derivatives, or a combination thereof. The Manager determines in its reasonable discretion, the classification of investments of Transactions within each of the asset classes.

The Investment Manager and the Trustee shall not be deemed to have breached the Guidelines if the price or value of any part of the Portfolio changes solely as a result of market movements but in such circumstances the Investment Manager shall take reasonable steps to bring the Portfolio back within the Guidelines, unless otherwise agreed with the Trustee.

The risk parameters for the Dynamic Growth Assets relative to its benchmark are as follows:

| Parameter                     | Maximum expected % |
|-------------------------------|--------------------|
| Monthly underperformance      | 4                  |
| Quarterly underperformance    | 7                  |
| Annual underperformance       | 10                 |
| Annualised monthly volatility | 8                  |

### **b. Liability Hedging parameters**

The table below sets out the degree to which the Trustee is targeting a reduction in the Scheme's overall inflation and interest rate sensitivities, as set out in the IMA:

| Liability hedging assets       |  |           |
|--------------------------------|--|-----------|
| Target proportion of portfolio | 10%  |           |
| Objective                      | To reduce the interest rate and inflation risk inherent in the Liabilities |           |
| Target Liability Amount %      | Interest rates   | Inflation |

|  |   |   |
|--|---|---|
|  | 70% of the Technical Provisions liabilities | 70% of the Technical Provisions liabilities |
|--|---|---|

Detailed parameters and details on the liability basis – which are subject to change as part of each Actuarial Valuation – are set out in the Fiduciary Manager’s documentation.

The Manager shall:

- Adjust the Liability Hedge Overlay daily (if necessary) to take into account new market movements in order to bring the percentage of Liabilities hedged back within the target range (rebalance)
- If the Manager considers that to do so would be in the Scheme’s best interests, have discretion, but no obligation, to rebalance the Liability Hedge Overlay in order to bring the percentage of Liabilities hedged towards the centre of the target range
- If instructed by the Trustee, rebalance the Liability Hedge Overlay to take into account new liability estimates provided by the Trustee in order to match the Liability Hedge Overlay to the target range.

Each counterparty shall be rated at least BBB or Baa2 by Standard and Poor’s Ratings Services (or any successor thereto) or Moody’s (or any successor thereto) respectively at the time any transaction is entered into.

### **c. Equity Derivative Overlay Structure (EDOS)**

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The Scheme has multiple EDOS. Full details of parameters are set out in the Fiduciary Manager’s documentation.

### **LGIM**

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The terms of engagement for LGIM are set out in the Fund Offering Documents and other associated documents where relevant.

The range of LGIM funds which can be used are set out in the Fund Offering Documents. This may be changed from time to time following consultation with the Advisers. Where daily priced funds are available these will be used rather than weekly priced funds.

### **Custody**

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The Manager’s custodians are as follows:

| Manager                                 | Mandate        | Custodian                                |
|---|----------------|--|
| Legal and General Investment Management | Policy Manager | HSBC Global Investor Services/ Citigroup |



Statement of Investment Arrangements –September 2024

|                      |                               |             |
|----------------------|-------------------------------|-------------|
| Schroders IS Limited | All non-Policy Manager Assets | CACEIS Bank |
|----------------------|-------------------------------|-------------|

## 4.0 Fees

The fee structure for the Managers is as follows:

| Manager / Fund                       | Fees per annum  |
|--------------------------------------|---|
| Schroders (Fiduciary management fee) | <ul style="list-style-type: none"> <li>0.24% p.a. on first £25m of the assets under management ("AUM")</li> <li>0.19% p.a. on next £50m of the AUM</li> <li>0.16% p.a. on next £50m of the AUM</li> <li>0.13% p.a. on next £50m of the AUM</li> <li>0.10% p.a. on next £200m of the AUM</li> <li>0.09% p.a. on next £200m of the AUM</li> <li>0.07% p.a. on next £200m of the AUM</li> </ul> 0.05% of the assets under management thereafter  |
| Schroders (Liability Hedging assets) | 0.07% p.a. on the first £100m of liability hedging notional<br>0.06% p.a. on the next £100m<br>0.05% p.a. on the next £100m<br>0.04% on everything thereafter, subject to a monthly minimum charge of £5,000<br>The liability hedge fee is charged on the higher of the inflation hedge and interest rate hedge. These are defined as follows:<br><b>Interest Rate Hedge</b> <ul style="list-style-type: none"> <li>Notional of interest rate swaps; plus</li> <li>Notional of other derivatives providing interest rate exposure, excluding inflation swaps; plus</li> <li>Market value of UK Government Securities in the liability hedge</li> </ul> <b>Inflation Hedge</b> <ul style="list-style-type: none"> <li>Notional of inflation swaps;</li> <li>Notional of other derivatives providing inflation exposure; and</li> <li>Market value of index-linked UK Government Securities in the liability hedge</li> </ul> |
| Schroders (EDOS)                     | 0.06% p.a. on the Notional Value  |

The fee structure for the Custodian appointed by the Trustee is as follows:

| Custodian                              | Fees per annum  |
|--|---|
| CACEIS Bank (a member of CACEIS Group) | Annual fee for investment accounting, performance measurement and compliance monitoring is 0.0175% p.a.<br>In addition there are settlement and safekeeping fees for each transition which are detailed in the custody agreement. |

Fees charged by the custodians of the Scheme's underlying fund managers are not directly appointed by the Trustees and fees are included in the unit price and therefore have been excluded from the SIA.