

Annual Report and Audited Financial Statements

2012





The Railway Industry Memorial, positioned at the National Memorial Arboretum, Alrewas, was commissioned by the British Transport Pensioners' Federation.

The montage of railway activities was designed by Stephen Warnes, Guild of Railway Artists.

The engraving and memorial construction was undertaken by HL Perfitt, Stonemason, of Diss.

Contents

02	Chairman's introduction	18	Independent Auditor's statement
04	The Railways Pension Scheme	19	Statement of Trustee Company responsibilities in relation to audited financial statements
06	Key Statistics	20	The Trustee Company Annual Report
07	Audited Financial Statements	31	Investment Report
16	Independent Auditor's report	35	Actuary's Report
17	Trustee Company's responsibilities in respect of contributions and summary of contributions payable in the year	36	Appendices

Chairman's introduction



“ It’s again a privilege to present on behalf of your Trustee Board the Annual Report and Audited Financial Statements of the Railways Pension Scheme (‘the Scheme’) for the year ended 31 December 2012. ”

During 2012, return-seeking investments performed significantly better than in recent years, with most asset classes generating positive returns and equities performing particularly well. Concerns remain, however, over weak growth and labour market fundamentals in many of the world’s major economies, coupled with unresolved issues such as levels of European sovereign debt, levels of personal debt, and fiscal deficits, most notably in the US but elsewhere too.

The Growth Pooled Fund, which is now by far the largest asset pool, had a strong year. This pool targets a long-term real return of 5% per annum above UK inflation, and in 2012 achieved a return of 8.4%, which was marginally ahead of the long-term target. Although global equities still remain the largest single asset class in this pool, the allocation to equities was further reduced during 2012 in response to an uncertain and less attractive market environment.

The Government and Non-Government debt pooled funds also achieved bond returns that were positive and ahead of benchmarks. During the year, securitised bonds such as mortgage-backed securities were completely removed from the benchmark of the Non-Government Bond Pooled Fund, which now has a benchmark of 100% in investment grade corporate bonds.

Commodities were the only return-seeking asset whose value fell during the year, but the performance was still ahead of market benchmark over the period and also since the inception of the pooled fund.

Of the defensive assets, only the small Index Linked Bond Pooled Fund displayed a negative return, which was perhaps to be expected following steep valuation increases in recent years, driven to some extent by distortions in supply (for example, quantitative easing) and demand (for example, regulatory pressures) in the index-linked markets.

In July, a Defensive Pooled Fund was established. This pool is designed to allow sections to reduce some risks without immediately implementing a full liability-driven investment programme or purchasing index-linked bonds at times of record low yields. The pool holds a flexible mix of assets, including holdings in the other pooled funds, but with a lower expected volatility than the Growth Pooled Fund, and targets a long-term real return of 0.5% per annum above UK inflation. At the inception of the Fund, all sections that previously held a mix of defensive assets, but that had now

agreed to follow Railpen Investments’ asset allocation guidelines based on so-called ‘risk budgeting’, had their assets transferred into the new pool in exchange for Defensive Pooled units.

In the Hedge Fund Pooled Fund, the Trustee Company agreed to begin a process of moving away from a wholly funds of funds structure towards a model which also includes direct hedge fund exposure. This is being done with the intention of reducing the management costs of running the pooled fund without adversely affecting returns.

The first investments in the Passive Equity Pooled Fund were also made during the year. This pooled fund is designed to reduce management costs and track the performance of a global equity index, rather than actively managing equities against a scheme-specific benchmark with higher management costs, which is the approach taken in the Global Equity Pool. The passive pool also hedges out currency exposure, except in emerging markets. The performance of the two equity pooled funds may therefore be expected to differ due to the impact of active management or due to the different benchmark. As at the end of 2012, only one section had invested in this new pooled fund.

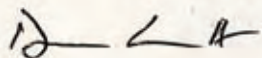
The Trustee Company also monitors and evaluates the actuarial funding position of the Scheme. An important part of this is a continuous assessment of the financial position of all the sponsoring companies, as a strong sponsoring employer helps ensure that the Scheme also remains strong. In many cases the Trustee Company has secured further contribution payments from employers or additional security such as guarantees for the benefit of many sections of the Scheme. While the 1994 Pensioners and BR sections of the Scheme already benefit from a government guarantee of pensions payable, members of all sections of the Scheme should be reassured that the Trustee Company places such a high priority on monitoring the strength of the employers’ covenants and on working with employers to maintain and, if possible, to improve the Scheme’s longer-term funding position. During 2013, the Trustee Company will continue its work in monitoring employers’ covenants, along with starting its preparations for the next formal valuation of the Scheme,

Chairman's introduction

which is due at the end of 2013, with draft results expected to be published early in 2014.

Each year, I take this opportunity to record my thanks to all who have served as Trustee Directors during the year. The wide range of their knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry and that we represent effectively the pensions interests of the many stakeholders.

I'm able to report that your Scheme has again won a number of awards during the year, including 'Best Scheme Governance (Private Sector)' from Engaged Investor and the 'Trustee Development Award' from Professional Pensions. I am also especially pleased to report that Stephen Richards, our longest-serving Trustee Director, was awarded 'Trustee of the Year' by Engaged Investor. As our administrator, RPMI, won the award for 'Best Pensions Administration' at the Financial News Awards for Excellence in Institutional Pensions UK, so it is appropriate to close this year's introduction by thanking the staff of RPMI for the unstinting service and support they continue to provide to your Scheme.



Derek Scott

Chairman of the Trustee Company



“ During 2013, the Trustee Company will continue its work in monitoring employers' covenants, along with starting its preparations for the next formal valuation of the Scheme, which is due at the end of 2013, with draft results expected to be published early in 2014. ”

The Railways Pension Scheme

The Railways Pension Scheme ('RPS') is an industry-wide pension scheme created to provide secure and flexible pension arrangements in the privatised multi-employer railway industry. It was created on 1 October 1994. Active members, preserved pensioners and pensioners of the BR Pension Scheme were transferred into the RPS on that date.

The RPS is the largest of the four pension schemes managed by the Trustee Company. It is one of the largest schemes in the UK and provides pensions for 162 companies operating within the privatised railway industry.

The RPS comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution Arrangement, the Defined Benefit Arrangement, the Omnibus Section and the Industry-Wide Defined Contribution Section. Employers may participate in more than one arrangement and be in more than one section of the Shared Cost Arrangement.

Advantages of an industry-wide scheme

The industry-wide structure allows the assets to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections.

For example, the asset allocation needs of sections can be considered separately from the appointment and monitoring of individual investment managers. The size of the pooled funds also allows all sections to benefit from economies of scale in investment management costs and from access to a wide range of investments. Sections wishing to invest in pooled funds purchase in the first instance, where possible, pooled fund units from sections wishing to sell, thus avoiding some of the external investment transaction costs.

The industry-wide nature of the Scheme can simplify the movement of employees between railway companies, allowing them to change employers while remaining in the same pension scheme.

The Trustee Company provides high-quality pensions services through its experienced administration, investment, secretariat, pensions policy, communications and finance teams, benchmarked in terms of quality standards against other providers.

A summary of the main provisions of the Scheme is shown in Appendix G.

The 1994 Pensioners Section

Pensioners and preserved pensioners in the BR Pension Scheme on 30 September 1994 were transferred into a separate section of the RPS – the 1994 Pensioners Section. On 30 December 2000, pensioners and preserved pensioners of the BR Section were also transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were transferred to the 1994 Pensioners Section in 2007, after agreement between the Trustee Company and the Department for Transport.

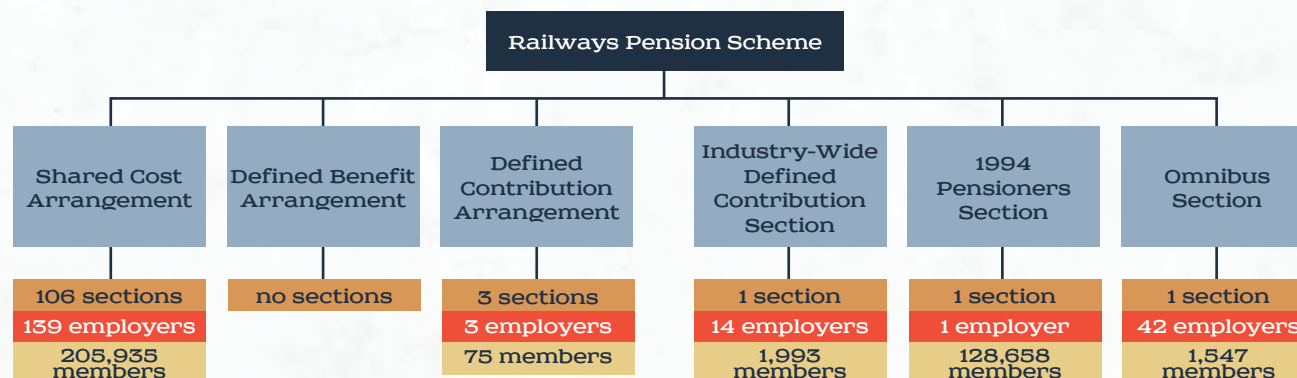
The Secretary of State guarantees all past service liabilities and pensions in payment at 1 August 2007, plus any future annual pension increases for the 1994 Pensioners Section.

The Shared Cost Arrangement

All active members of the BR Pension Scheme were transferred into the Shared Cost Arrangement on 1 October 1994. Transferred members with protected rights have a statutory right to remain in the RPS while they continue to be employed in the railway industry.

A separate section within the Shared Cost Arrangement may be created for each designated employer. Originally, as each BR business was franchised or sold, a proportionate share of RPS assets was transferred to the new section of the Scheme. Subsequent sales and transfers of parts of businesses can now result in the creation or mergers of sections.

As at 31 December 2012, 93 of the 106 shared cost sections had active members and 45 of these sections remain open to new members. For open sections, employees of the participating employer who are employed in the railway industry may join the Scheme. New members are not protected under the Railways Act 1993, however, so their pension rights may differ from those who have protected rights.



Some employers participate in more than one section of the RPS. Adjusting for those employers that participate in more than one section, the number of employers within the RPS reduces from 199 to 162 (2011 – 170).

The Railways Pension Scheme

The Omnibus Section

Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus section. Employers may remain in the arrangement if their membership increases above 50. At the end of 2012, 42 employers (2011 – 47 employers) were part of the Omnibus section. A full list of sections and participating employers is given in Note 9 to the Audited Financial Statements.

Defined Contribution, Defined Benefit and Industry-Wide Defined Contribution Section

Employers may set up a different defined benefit section and/or defined contribution section or they can choose to join the Industry-Wide Defined Contribution Section. The Industry-Wide Defined Contribution Section was established on 1 November 2001. The section aims to provide employers with a flexible defined contribution scheme. At the end of 2012, 14 employers were part of this section (2011 – 14 employers).

At 31 December 2012, there were three defined contribution sections (2011 – three sections).

Reporting

There are separate records for each section and each section receives quarterly reports including accounts, investment and administration performance. Each section is independently valued by the Scheme Actuary.

Pensions Committees

The designated employer of each shared cost section may establish a pensions committee to which the Trustee Company will delegate certain of its powers and duties under Appendix 5 of the Pension Trust, which includes responsibilities such as the determination of incapacity and discretionary benefits. Setting investment strategy can also be vested in the committees under Clause 5G of the Pension Trust, subject to the Trustee Company's approval. All pensions committees have an equal number of employer and member nominees. The chairmanship alternates annually between the employer and member nominees. The Trustee Company, however, retains responsibility for supervising how the committees exercise their powers.

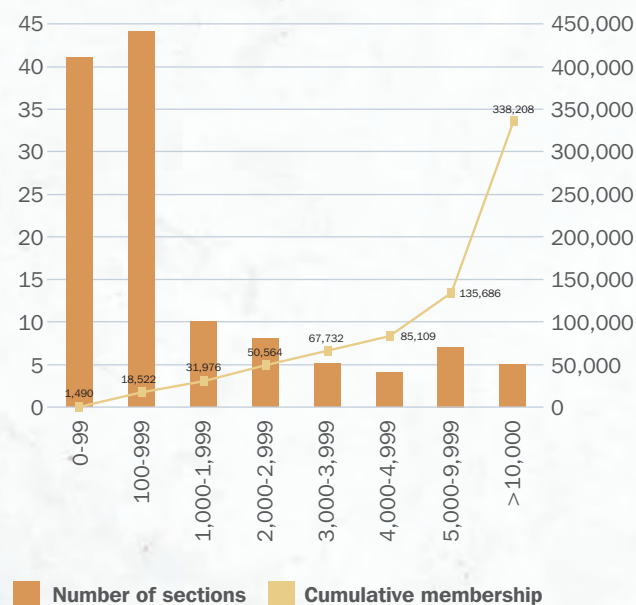


Key Statistics

Five-year summary of RPS participation

	2012	2011	2010	2009	2008
Sections	112	111	109	107	107
Employers	199	208	212	217	225
Active membership	85,321	84,411	84,304	86,747	89,735
Preserved membership	109,219	109,088	109,138	108,252	107,302
Pensioners	143,668	145,278	145,118	144,340	143,683
Total membership	338,208	338,777	338,560	339,339	340,720

Comparison of membership of sections

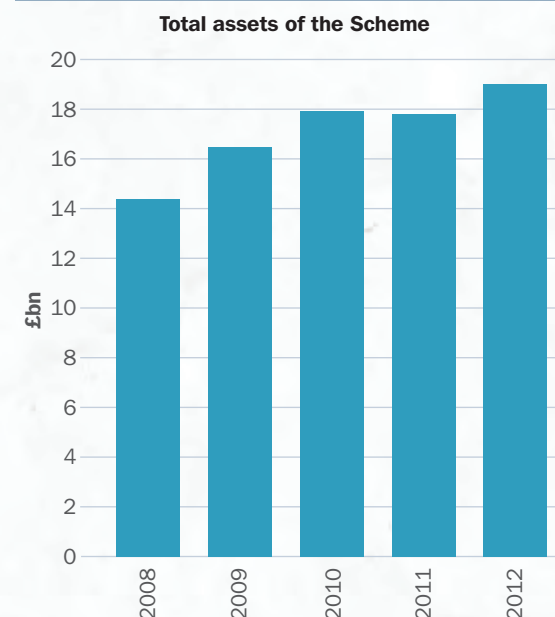


Five-year summary of financial statements of RPS

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Scheme benefits					
Pensions	710	684	664	648	612
Lump sums	133	129	170	165	131
Death benefits	21	21	19	22	21
Total benefits	864	834	853	835	764
Contributions income					
Employees	263	255	255	248	239
Employers	364	423	374	361	338
Government	25	25	26	28	29
Total contributions	652	703	655	637	606
Net transfer values	19	32	37	10	11
Admin expenses (including PPF)	(47)	(43)	(56)	(33)	(40)
Change in market values & interest*	1,430	(3)	1,702	2,313	(4,557)
Net increase/(decrease) in the Scheme	1,190	145	1,485	2,092	(4,744)
Net assets of Scheme	18,898	17,708	17,853	16,368	14,276

* Change in market values & interest includes £265m of investment income in 2012 (2011 - £340m).

Five-year summary of net assets of RPS



Key statistics for 2012

Total Membership	338,208
Net increase in the Scheme	£1,190m
Net assets of Scheme	£18,898m

Audited Financial Statements

Fund account for the year ended 31 December 2012

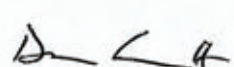
	Notes	2012 £m	2011 £m
Contributions and benefits			
Contributions	3	652	703
Individual transfer values		27	42
		679	745
Pensions		(710)	(684)
Lump-sum retirement benefits		(133)	(129)
Individual transfer values		(8)	(10)
Death benefits		(21)	(21)
		(872)	(844)
Administrative expenses	4	(18)	(21)
PPF levies		(29)	(22)
Total withdrawals		(919)	(887)
Net withdrawals from dealings with members		(240)	(142)
Returns on investments			
Change in market values	5	1,430	(3)
Net returns on investments		1,430	(3)
Net increase/(decrease) in the Scheme during the year		1,190	(145)
Net assets at the start of the year		17,708	17,853
Net assets at the end of the year		18,898	17,708

Net assets statement as at 31 December 2012

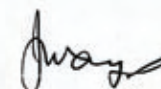
	Notes	2012 £m	2011 £m
Investments	5	18,891	17,705
Net current assets	6	7	3
Net assets at the end of the year	7	18,898	17,708

The audited financial statements summarise the transactions and net assets of the Scheme. They do not take account of the obligations to pay pensions and other benefits in the future. The ability to pay future pensions is addressed in the Actuary's Report, which is summarised on page 35 and should be read in conjunction with these financial statements. Benefits payable for the 1994 Pensioners Section and the BR Section are backed by Crown Guarantees.

Approved by the Directors of the Trustee Company on 8 May 2013.



Derek Scott
Chairman, Trustee Board



John Mayfield
Director and Chairman,
Audit Committee

The notes numbered 1 to 9 form an integral part of these Audited Financial Statements.

Audited Financial Statements

Notes to the audited financial statements for the year ended 31 December 2012

1. Basis for preparation

The audited financial statements have been prepared in accordance with applicable United Kingdom law, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)'.

2. Accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies of the Scheme are as follows:

Investments

Investments are included in the financial statements at the year-end using the following valuation bases:

- The majority of the assets of the Scheme are invested in a portfolio of pooled funds, which operate as internal unit trusts for those railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the year-end unit prices of the units held by the Scheme in each pooled fund at the year-end. Unit prices reflect the market valuations of the underlying assets held by the pooled funds and include income receivable on investments held. Further details of the pooled fund investment accounting policies are set out in the extracts from the pooled fund accounts in Appendix J.
- The Trustee Company holds assets invested separately from the main Scheme to secure additional benefits on a defined contribution ('DC') basis. Members participating in these arrangements each receive an annual statement confirming the amounts held to their account and the movements in the year. The assets are held in pooled investment vehicles valued at their bid price or last traded price at the year-end date, as advised by the investment managers.

Additional Voluntary Contribution ('AVC') investments (BRASS) in pooled investment vehicles are stated at market value at the year-end date as advised by the manager. The Pension Assured Fund ('PAF') is valued as a whole by reference to the market value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.

- Substitution orders refer to deferred payments due under the Transport Act 1980, and are valued as certified by the Scheme Actuary. The Scheme Actuary is James Wintle, of Towers Watson Limited. The Government Actuary, Trevor Llanwarne, is joint Actuary for the 1994 Pensioners Section and the BR Section.
- Loans and deposits and net current assets/ (liabilities) are included at book cost, which the Trustee Company considers to be a reasonable estimate of accounting fair value.

Change in market values

Change in market values mainly comprise gains and/or losses on investments arising in the year and reinvested investment income.

Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled funds, reflected in the unit prices and reported within change in market values.

Realised and unrealised gains and losses on investments, including income receivable, are dealt with in the pooled fund accounts in the year in which they arise and are reflected in the pooled fund unit prices.

Contributions and benefits

Contributions, including AVCs, and benefits are accounted for in the year in which they fall due. Payments under the Transport Act 1980 are accounted for as they become payable. Amounts receivable to extinguish future liabilities under the Transport Act 1980 are accounted for when the future liability is discharged.

Benefits payable are accounted for from the period in which the members notify the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, from the date of retirement or leaving.

Administrative expenses

Administrative expenses are accounted for in the year in which they fall due.

Pension Protection Fund ('PPF') levies

PPF levies are accounted for in the year in which they fall due.

Transfer values

All transfer values are determined on the advice of the Scheme Actuary. Individual transfers in or out are accounted for when received or paid, which is normally when member liability is accepted or discharged. Group transfers are accounted for in accordance with the terms of the transfer agreement. Transfer of undertakings (protection of employment) ('TUPE') and other intra-RPS transfers are settled by a mixture of pooled fund units and cash pro rata to the asset mix of the transferring section.

3. Contributions receivable

	2012 £m	2011 £m
Members' contributions		
Normal	201	204
Additional voluntary (AVCs)	48	43
Deficit funding*	14	8
Employers' contributions		
Normal	306	309
Deficit funding*	39	94
Government support	25	25
BRASS matching	16	17
Augmentation	3	3
	652	703

Audited Financial Statements

* Deficit funding contributions are being paid into the Scheme by both employees and employers until September 2027, or earlier, in accordance with recovery plans to improve the Scheme's funding position.

Further information on contribution rates can be found in the Actuary's Report on page 35. Information on late payments during the year can be found on page 38. Further information on government support can be found on page 34.

4. Administrative expenses

	2012 £m	2011 £m
Pensions administration	10	10
Actuarial fees	2	5
Trustee governance	2	2
Other overheads	2	1
Legal fees	1	2
Communications	1	1
	18	21

Pensions administration charges cover the processing of member transactions and preparation of financial statements. These activities are carried out by RPMI Limited ('RPMI') and are allocated according to the membership of each section.

Administration and trustee governance expenses do not include investment management fees and costs, which are deducted from the unit prices of pooled fund investments and disclosed separately in the pooled fund accounts in Appendix J.

5. Investments

	Market values at 31/12/11 £m	Purchases at cost £m	Sales Proceeds £m	Change in market values £m	Market values at 31/12/12 £m
Pooled Funds					
Growth	6,325	1,837	(113)	598	8,647
Equities	3,787	38	(1,802)	401	2,424
Private Equity	1,762	121	(170)	92	1,805
Infrastructure	729	-	-	81	810
Defensive	-	683	(15)	12	680
Non-Government Bond	592	362	(406)	58	606
Government Bond	841	67	(349)	46	605
Property	678	1	(251)	21	449
Cashflow Matching	465	161	(353)	2	275
Index Linked	141	1	(13)	(2)	127
Hedge Funds	216	-	(111)	10	115
LDI	150	-	(45)	7	112
Cash Fund	83	722	(704)	1	102
Passive Equity	-	61	-	1	62
Commodities	51	6	(14)	(2)	41
	15,820	4,060	(4,346)	1,326	16,860
Securities directly held by schemes					
BRASS (AVC) and DC	1,275	95	(103)	68	1,335
Substitution orders	506	14	-	36	556
	17,601	4,169	(4,449)	1,430	18,751
Other cash and cash instruments	104				140
	17,705				18,891

Audited Financial Statements

5. Investments (continued)

BRASS investments include 746,509,765 units in the PAF. Further information on PAF can be found on page 34.

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the market values of investments (see page 9). Although income is not distributed, the pooled fund regulations allow the Scheme to extract its share of pooled fund income at no cost, by selling units at zero spread. The income withdrawn from the pooled funds in this way can then be used to pay benefits.

Investment administration includes the cost of selecting and monitoring the investment managers and custodians and the preparation of pooled fund accounts. These activities are carried out by RPMI.

Further analysis of investments, charges and fees for each pooled fund is provided in the pooled fund accounts, in Appendix J. The percentages of the pooled funds' assets that relate to RPS investments are shown in the table below.

	% of pooled fund owned 31.12.12	% of pooled fund owned 31.12.11
Pooled Funds		
Commodities *	100.0	100.0
Defensive	100.0	-
LDI	100.0	100.0
Passive Equity	100.0	-
Equities *	98.3	99.0
Property *	97.7	98.3
Private Equity	95.9	95.8
Non-Government Bond *	95.7	95.0
Infrastructure	95.3	95.3
Cash Fund *	92.1	95.9
Growth	91.8	89.9
Cashflow Matching	90.7	91.1
Government Bond *	90.7	93.4
Hedge Funds *	83.5	90.5
Index Linked	78.9	77.2

6. Net current assets/ (liabilities)

	2012 £m	2011 £m
Contributions due from employers	21	21
PPF levies	3	(1)
Investment creditor	-	(3)
Administration expenses	(3)	(4)
Taxation and social security	(6)	(5)
Benefits payable	(8)	(5)
	7	3

£202,000 of unpaid contributions at the year-end that are on the schedules of contributions were not paid by their due date. Of these, £191,000 has since been paid and £11,000 remains outstanding. The £11,000 of outstanding contributions relate to contributions due from 2E2 UK Limited which went into administration during January 2013. An application has been made to the Insolvency Service to pay these contributions on the employer's behalf.

7. Related party transactions

The Trustee Company and its subsidiaries provide services to the Scheme (explained on page 8 and 9). The charges payable, and those of external service providers, are detailed in note 4. At 31 December 2012, net current assets included a liability of £2.7m in respect of these charges (2011 – a liability of £4.4m).

At 31 December 2012, eight directors of the Trustee Company were members of the Scheme and two of these directors were also Non-Executive Directors of RPMI. All Executive Directors of RPMI and Railpen Investments are also members of the Scheme. All directors receive benefits on the same basis as other members of the Scheme. Certain directors of the Trustee Company and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Scheme bears its share of this remuneration through recharges.

8. Employer-related investments

As at 31 December 2012, investments in employers amounted to no greater than 5% of the assets of the Scheme, and, for any single section, the investment in its sponsoring company was not greater than 5% of the assets of the section.

Investment securities issued by HM Government are excluded from the definition of employer-related investments for the purposes of these audited financial statements.

* The total value of the pooled funds used in the percentage calculations only include Scheme investments in the pooled funds and so exclude cross-held investments owned by the Growth, Defensive and BRASS Pooled Funds.

Audited Financial Statements

9. Net assets at the end of the year

The net assets of each section of the Scheme at 31 December 2012 are shown below:

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
*1994 Pensioners	The Secretary of State for Transport	128,658	3,625
Abellio	Abellio Transport Holdings Ltd	31	3
Alpha Trains	Alpha Trains (UK) Ltd	27	6
Alstom Railways	Alstom Ltd	2,100	142
AMCO	Amalgamated Construction Ltd	15	0.1
Amey Rail	Amey Rail Ltd	2,530	156
Angel Trains	Angel Trains Ltd	236	39
Anglia Railways	Abellio Greater Anglia Ltd	867	70
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,302	203
Atkins Ltd	Atkins Ltd	877	175
ATOC Ltd	ATOC Ltd	336	37
Atos	ATOS IT Services UK Ltd	1,273	212
Babcock Rail Ltd	Babcock Rail Ltd First Engineering Holdings Ltd First Projects Ltd	2,377	195
Balfour Beatty	Balfour Beatty Group Ltd Balfour Beatty Rail Ltd	3,225	263
BAM Nuttall	BAM Nuttall Ltd	22	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	374	35
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	166	5

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Bombardier Transportation UK	Bombardier Transportation (Rolling Stock) UK Ltd Bombardier Transportation UK Ltd	1,222	97
*BR	BRB (Residuary) Ltd Channel Tunnel Rail Link Ltd London & Continental Railways Ltd London Underground Ltd Scottish Ministers The Secretary of State for Transport	871	109
British Transport Police	British Transport Police Authority	2,871	75
BT	British Telecommunications plc	326	13
BUPA Occupational Health	Occupational Health Care Ltd	98	9
c2c Rail	c2c Rail Ltd	1,490	72
Carillion Rail (Centrac)	Carillion Construction Ltd	373	31
Carillion Rail (GTRM)	Carillion Construction Ltd	4,013	222
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	82	3
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	230	13
Clientlogic	Clientlogic (UK) Ltd	65	3
Colas Rail	Colas Rail Ltd	2,212	142
COMATEC	*** COMATEC UK Ltd	32	1
CSC Computer Sciences	CSC Computer Sciences Ltd	10	1

Audited Financial Statements

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
DeltaRail Group (Link)	DeltaRail Group Ltd	206	30
DeltaRail Group (Rail)	DeltaRail Group Ltd	274	64
DeltaRail Group (TCI)	DeltaRail Group Ltd	127	25
East Coast Main Line	East Coast Main Line Company Ltd	7,242	335
East Midlands	East Midlands Trains Ltd	4,025	239
Environmental Scientifics Group	Environmental Scientifics Group Ltd ESG Asbestos Ltd	298	23
Eurostar	Eurostar International Ltd	3,915	275
Eversholt Rail (UK) Ltd	Eversholt Rail (UK) Ltd	115	33
EWS	Axiom Rail (Cambridge) Ltd DB Schenker Rail (UK) Ltd Engineering Support Group Ltd English, Welsh & Scottish Railway Holdings Ltd English, Welsh & Scottish Railway International Ltd	10,177	937
** Fastline	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,476	154
First Capital Connect	First Capital Connect Ltd	5,144	254
First Great Western	First Greater Western Ltd	10,735	555
First ScotRail	First ScotRail Ltd	7,660	452
Freightliner	Freightliner Ltd Freightliner Heavy Haul Ltd Freightliner Maintenance Ltd Management Consortium Bid Ltd	3,005	261

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
GB Railways	GB Railfreight Ltd	277	29
Global Crossing	Level 3 Communications UK Ltd	234	37
Great Eastern Railway	Abellio Greater Anglia Ltd	2,273	163
Halcrow Rail	Halcrow Group Ltd	245	40
HS1	HS1 Ltd	35	6
Hull Trains	Hull Trains Company Ltd	60	5
Interfleet Technology	Interfleet Technology Ltd	340	42
Island Line	Stagecoach South Western Trains Ltd	81	5
ISS Transport Services	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	210	6
** Jarvis Facilities	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,827	201
Lionverge	Lionverge Civils Ltd	109	4
London & South Eastern Railway Ltd	London & South Eastern Railway Ltd	8,622	474
London and North Western Railway	London and North Western Railway Company Ltd	67	6
London Eastern Railway (West Anglia)	Abellio Greater Anglia Ltd	1,164	82
London Midland	London & Birmingham Railway Ltd	5,320	303
London Overground	London Overground Rail Operations Ltd	1,249	63
London Underground	London Underground Ltd	42	1

Audited Financial Statements

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Merseyrail	Merseyrail Electrics 2002 Ltd	2,219	121
MITIE Facilities Services	MITIE Facilities Services Ltd	45	1
Mouchel Parkman Rail Ltd	*** Mouchel Rail Ltd	7	1
National Express Services Ltd	***National Express Services Ltd	144	2
Network Rail	Network Rail Infrastructure Ltd	42,231	4,203
New Cross Country Trains	XC Trains Ltd	3,721	232
Northern (ex North East)	Northern Rail Ltd	4,861	309
Northern (ex North West)	Northern Rail Ltd	4,478	254
Omnibus	***2E2 UK Ltd Aggregate Industries UK Ltd Amec Group Ltd Bombardier Transportation UK Ltd ** Bridgen Holdings Ltd CapGemini UK plc ** Catalis Ltd Cats Solutions Ltd Colas Rail Ltd Crossrail Ltd CSC Computer Sciences Ltd DHL Services Ltd EB Central Services Ltd Forth and Oban Ltd Harsco Rail Ltd Interserve (Facilities Management) Ltd Keolis (UK) Ltd Lorne Stewart plc Manpower UK Ltd MITIE Technician Facilities Management Ltd *** Mouchel Rail Ltd	1,547	106

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Omnibus (continued)	NG Bailey Facilities Services Ltd Orient Express Services Ltd Phoenix IT Services Ltd *** Puccino's Ltd Rail Management Services Ltd Railways Vehicle Engineering Ltd Rentokil Initial Facilities Services (UK) Ltd Signet Solutions Ltd Sodexo Ltd Stagecoach Supertram Maintenance Ltd Staveley Industries plc Telent Technology Services Ltd TeleTech UK Ltd Vital Rail Ltd Voestalpine VAE UK Ltd VolkerRail Specialist Businesses Ltd Weatheralls Management Services Ltd Weedfree Ltd West Coast Railway Company Ltd ** Western Track Engineering Ltd Wetton Cleaning Services Ltd		
Owen Williams Railways	Amey OWR Ltd	334	53
Porterbrook	Porterbrook Leasing Company Ltd Porterbrook Maintenance Ltd	164	31
Qjump	Qjump Ltd	125	2
Rail Europe	Rail Europe Ltd	40	7

Audited Financial Statements

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd	454	27
Railcare (2007)	Railcare Ltd	340	38
** Relayfast Group	Fastline Ltd Jarvis plc Jarvis Rail Ltd	621	63
RPMI	RPMI Ltd	635	52
RSSB	Rail Safety and Standards Board Ltd	396	60
Scott Wilson	URS Infrastructure and Environment UK Ltd	211	40
Serco	Serco Ltd	573	51
Serco (UK) Services Ltd	Serco (UK) Services Ltd	6	0.1
Siemens	Siemens plc	91	5
Siemens Enterprise Communications Ltd	Siemens Enterprise Communications Ltd	5	1
Signalling Solutions Ltd	Signalling Solutions Ltd	42	6
South West Trains	Stagecoach South Western Trains Ltd	10,721	538
Southern	Southern Railway Ltd	9,734	394
Specialist Computer Centres	Specialist Computer Centres	33	2
Swirl Service Group	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	9	0.1
Tata Steel UK Ltd	Tata Steel UK Ltd Tata Steel UK Rail Consultancy Ltd	553	36

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Thales Information Systems	Thales Information Systems Ltd	29	4
Thales Transport and Security	Thales Corporate Services Ltd Thales Transport and Security Ltd Thales UK Ltd	2,006	240
The Chiltern Railway Company	The Chiltern Railway Company Ltd	1,163	77
The QSS Group Ltd	RIQC Ltd The QSS Group Ltd	76	8
Torrent Trackside Ltd	Torrent Trackside Ltd	8	1
TransPennine Express (Former Arriva Trains Northern)	First/Keolis Transpennine Ltd	806	59
TransPennine Express (Former North Western Trains)	First/Keolis Transpennine Ltd	603	37
Unipart Rail - NRS	Unipart Rail Ltd	618	51
Unipart Rail - Railpart	Unipart Rail Ltd	355	41
Unisys	Unisys Ltd	30	2
UPS	UPS Ltd	360	33
Voith	Voith Industrial Services Ltd	21	0.04
Wabtec Rail Ltd	Wabtec Rail Ltd	10	1
West Coast Traincare	Alstom Ltd	1,043	87

Audited Financial Statements

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
West Coast Trains Ltd	West Coast Trains Ltd	6,855	404
Westinghouse Rail Systems	Westinghouse Brake & Signal Holdings Ltd	920	126
Wrexham, Shropshire & Marylebone Railway Company	*** Wrexham, Shropshire & Marylebone Railway Company Ltd	32	1
		336,140	18,870
Defined contribution arrangement			
c2c Rail Ltd	c2c Rail Ltd	18	0.02
Wales and West Passenger Trains Ltd	Wales and West Passenger Trains Ltd	2	0.004
West Anglia Great Northern Railway	West Anglia Great Northern Railway Ltd	55	0.1

Section	Employer	Total membership as at 31/12/12	Net assets at 31/12/12 £m
Industry-Wide Defined Contribution Section	Babcock Rail Ltd Corus UK Ltd East Midlands Trains Ltd Eversholt Rail (UK) Ltd First/Keolis Transpennine Ltd GB Railways Group plc London Eastern Railway Ltd Porterbrook Leasing Company Ltd Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd Swietelsky Construction Company Ltd The Chiltern Railway Company Ltd Unipart Rail Ltd Volkerrail Ltd	1,993	28
		338,208	18,898

For those sections that have more than one participating employer, the designated employer is shown in bold.

* Denotes sections with a Crown Guarantee

** Denotes sections/employers that were in a PPF assessment period at 31 December 2012

*** Denotes employers that were in administration or no longer trading at 31 December 2012

Independent Auditor's report

Independent Auditor's report to the Trustee of the RPS

We have audited the financial statements of the RPS for the year ended 31 December 2012 set out on pages 7 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Scheme Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it 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 Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 19, the Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 December 2012, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London, E14 5GL

8 May 2013



“ The Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice. ”

Trustee Company's responsibilities in respect of contributions and summary of contributions payable in the year

Statement of Trustee's responsibilities in respect of contributions

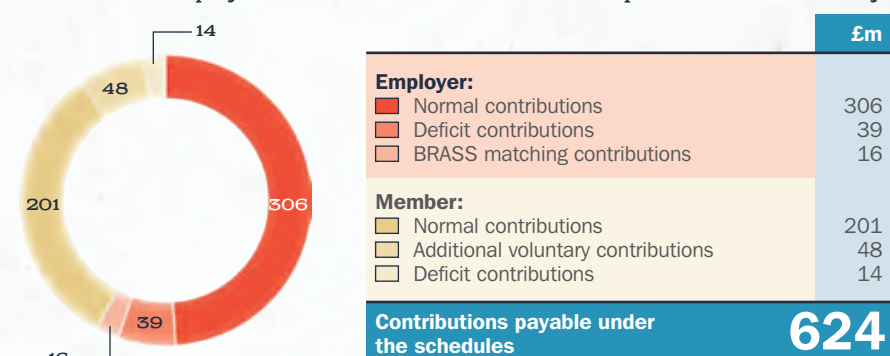
The Scheme's Trustee is responsible under pensions legislation for ensuring that there are prepared, maintained and, from time to time, revised schedules of contributions and payment schedules showing the rates of contributions payable towards the Scheme by or on behalf of the employers and the active members of the Scheme, and the dates on or before which such contributions are to be paid. The Scheme has over 100 sections and approaching 200 participating employers. The impracticality of agreeing one schedule means that the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules, drawn up in accordance with the Pensions Acts 2004 and 1995 respectively, relevant to each of the sections of the Scheme.

The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the schedules as if the Pensions Act 1995 and 2004 applied to those individual schedules, or, where no schedule is in place, in accordance with the Scheme rules and recommendation of the Scheme Actuary.

Trustee's summary of contributions payable under the schedules in respect of the Scheme year ended 31 December 2012

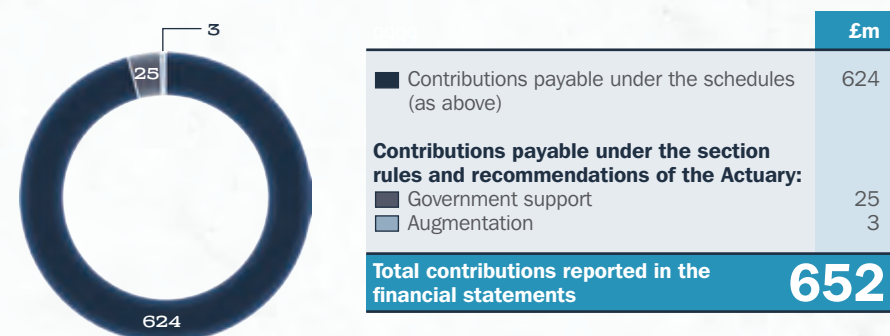
This summary of contributions has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the schedules of contributions certified by the Scheme Actuary and the payment schedules in respect of the Scheme year ended 31 December 2012. The Scheme Auditor reports on contributions payable under the schedules in the Auditors' Statement about Contributions.

Contributions payable under the schedules in respect of the Scheme year



Reconciliation of contributions

Reconciliation of contributions payable under the schedules to contributions reported in the financial statements in respect of the Scheme year:



Signed on behalf of the Trustee on 8 May 2013.

Derek Scott
Chairman

Independent Auditor's statement about contributions, made under regulation 4 of the Occupational Pension Schemes (requirement to obtain audited accounts and a statement from the Auditor) regulations 1996, to the Trustee of the RPS

We have examined the summary of contributions payable under the schedule of contributions and payment schedules to the RPS in respect of the Scheme year ended 31 December 2012 which is set out on page 17.

This statement is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our 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 about contributions 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's Trustee, as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 17, the Scheme's Trustee is responsible, under the Pensions Acts 2004, for ensuring that there are prepared, maintained, and from time to time revised, schedule of contributions and payment schedules which set out the rates and due dates of certain contributions payable towards the Scheme by, or on behalf of, the employers and the active members of the Scheme. In view of the complexity of the arrangements and the number of employers participating in the Scheme, the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules relevant to each of the participating employers and sections of the Scheme. The Trustee has a general responsibility for procuring that contributions are made to the Scheme in accordance with those schedules of contributions and payment schedules as if the Pensions Acts 1995 and 2004 applied to those individual sections and employers, or, where there is no applicable schedule, in accordance with the Scheme rules and the recommendations of the Actuary.

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

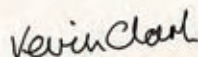
by the employer in accordance with the payment schedule. It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you. We read the Trustee's report and the other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent mis-statements or material inconsistencies with the summary of contributions.

Basis of statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the relevant requirements. 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 schedules. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

Statement about contributions payable under the schedules

In our opinion contributions for the Scheme year ended 31 December 2012 as reported in the summary of contributions and payable under the schedules have in all material respects been paid at least in accordance with the schedules of contributions certified by the Actuary, the payment schedules or the Scheme rules and the recommendations of the Actuary.



Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, KPMG, 15 Canada Square,
Canary Wharf, London, E14 5GL

8 May 2013

“This statement is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder.”



Statement of Trustee Company responsibilities in relation to audited financial statements

The audited financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view in accordance with UK GAAP 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

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

Approval of the accounts

The financial statements have been prepared and audited in accordance with regulations made under sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 8 May 2013.

“ The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. ”

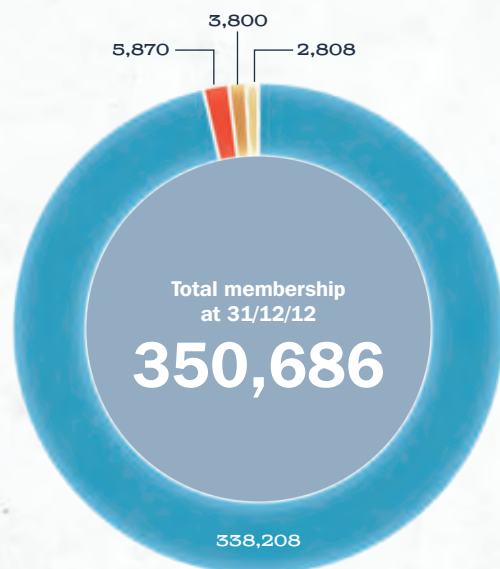


The Trustee Company Annual Report

Railways Pension Trustee Company Limited

The Railways Pension Trustee Company Limited ('Trustee Company') is the Trustee to four railway industry pension schemes. Two of these schemes are open to new members: the RPS and the British Transport Police Force Superannuation Fund. All the pension schemes participate in the pooled fund structure.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee as a corporate trustee. The Trustee has overall fiduciary responsibility for the effective operation of the RPS and the other pension schemes, including administration of benefits, collection of contributions, payment of pensions and the investment and safe custody of assets. It must act fairly in the interests of active members, preserved pensioners, pensioners and employers.



Railtrust Holdings Limited

The Trustee Company is owned by Railtrust Holdings Limited ('RHL'), a company limited by guarantee. Designated employers of sections in the RPS are encouraged to become a member of RHL. The company is owned equally by its guarantor members, irrespective of size. Each member of RHL is committed to contribute a maximum of £1 to its liabilities if it is wound up.

The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee Company. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives) of the RPS. The directors of RHL and the Trustee Company are the same.

There are 16 directors in total, eight elected by the employers in the railway industry ('employer directors') and eight on behalf of the members of the railways pension schemes ('employee directors'). Six of the employee directors are nominated on behalf of the employee members and two on behalf of the pensioner members (including deferred pensioners). Roughly a third of the directors retire by rotation every two years. The term of office is six years.

Trustee directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

Total membership at 31/12/12

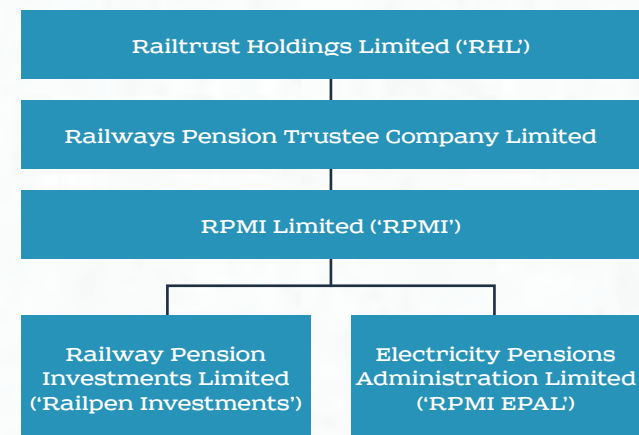
Railways Pension Scheme	338,208
British Transport Police Force Superannuation Fund	5,870
British Railways Superannuation Fund	3,800
BR (1974) Fund	2,808

The operating subsidiaries

RPML provides services to the railways pension schemes. RPML is based in Darlington, Coventry and London, and is responsible for a wide range of services including: pensions administration; communication with members and stakeholders; strategic investment advice; contribution collection; treasury management; investment, company and scheme accounting; employer covenant assessment; and business assurance, company secretarial, governance, legal, responsible investment, technical, pensions policy and compliance services. RPML is also authorised by the Financial Services Authority ('FSA') to carry out third-party administration services for insurance companies and others.

RPML's wholly owned subsidiary, Railway Pension Investments Limited ('Railpen Investments'), carries out investment management for the Trustee of the Railways Pension Scheme. Railpen Investments is an FSA authorised body which permits it to carry out regulated investment business for the Trustee.

The structure of the Trustee group



The Trustee Company Annual Report









Employer director appointment procedure

The current procedure, which was introduced in 2010, is based on industry sub-sector constituencies. The nominating constituency groups and the number of directors to be appointed by each constituency are set out in the table below:

Nominating constituency	Number of Directors
Passenger train operating companies	3
Network Rail	2
Freight train operating companies and support services	2
All employers (including above)	1

The voting arrangements recognise all members while giving the most emphasis to active members. If there are more nominations than vacancies, voting within the constituency groups is on the basis of the number of employee members, deferred pensioners and pensioners associated with the employer. There is one vote for each active member and half a vote for each pensioner and deferred pensioner. The 'All Employers' group continues to be one employer, one vote.

The chart, right, shows the current employer Trustee directors as at the end of December 2012, their date of retirement by rotation, and deemed nominating constituency.

Name	Nominating constituency	Date of Retirement by Rotation
 Derek Scott (Chairman)	All employers	2016
 John Chilman	Passenger train operating companies	2018
 Richard Goldson	Passenger train operating companies	2016
 John Hamilton	Passenger train operating companies	2014
 Chris Hannon	Network Rail	2018
 Russell Mears	Freight train operating companies and support services	2016
 David Simpson	Network Rail	2014
 John Wilson	Freight train operating companies and support services	2014









Employee director appointment procedure

Nominations for the six directors representing the employee members are sought from the railway trade unions, the British Transport Police Federation, and Pensions and Management Committees.

Nominations for the two directors representing the pensioner members (including deferred pensioners) are sought from the British Transport Pensioners' Federation, the Retired Railway Officers' Society, the railway trade unions and the British Transport Police Federation.

In all cases, if there are more nominations than vacancies, a secret ballot is held of all active members or pensioners, as appropriate, in the railways pension schemes. Again, the successful nominees will be those with the most votes.

The chart, below, shows the current employee Trustee directors as at the end of December 2012, their date of retirement by rotation, and deemed nominating constituency.

Name	Nominating constituency	Date of Retirement by Rotation
 Mick Cash	National Union of Rail, Maritime and Transport Workers ('RMT')	2016
 Tony Cotgreave	British Transport Pensioners' Federation (Pensioners' Federation)	2014
 Dave Gott	National Union of Rail, Maritime and Transport Workers ('RMT') and the Management Committee of the British Railways Superannuation Fund	2018
 Charles Harding	Confederation of Shipbuilding and Engineering Unions ('CSEU')	2014
 John Mayfield	Retired Railway Officers' Society ('RROS')	2014
 Stephen Richards	Transport Salaried Staffs' Association ('TSSA')	2018
 Gary Towse	British Railways Superannuation Fund Management Committee ('BRSF')	2016
 Dave Tyson	Associated Society of Locomotive Engineers & Firemen ('ASLEF')	2016

The Trustee Company Annual Report

Governance

The Trustee places great emphasis on maintaining high standards of fiduciary governance. Governance means having the people, structure and processes in place to provide the foundation for the efficient operation and effective decision-making of the Trustee Board.

The experience and skills of Trustee Directors are the cornerstones of the Board's effective ways of working. Directors attended between 5 and 24 Board and Committee meetings in 2012. Attendance is reported to the Board and published in this Report and Accounts.

Directors have a comprehensive training programme on appointment and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustee Directors complete a minimum standard which meets the Pensions Regulator's and the Trustee Company's requirements within six months of appointment. A wide range of training is offered by external providers and RPMI, including Trustee Knowledge and Understanding ('TKU') Training. Equally as important is training on the unique characteristics and complexity of the railways pension schemes. To further support Trustee Directors, there is a dedicated area of the RPMI website which provides one easily accessible location for information relevant to their role. For three successive years between 2009 and 2011, the Trustee Company received the 'Engaged Investor' award for trustee training and in 2011 and 2012 also received their award for best scheme governance. In 2012, the Trustee Company received the Trustee Development Award at the Professional Pensions Scheme of the Year Awards and, most notably, Stephen Richards was awarded Engaged Investor Trustee of the Year, honouring his commitment and dedication to the railways pension schemes over many years.

Exposure of investments

RPS assets are invested in a number of pooled investment vehicles that operate as internal unit trusts. These offer the RPS the ability to invest in a wide range of investments including UK and foreign equity, bonds, hedge funds, private equity, property, commodities and infrastructure. Each of these types of investments has its own

risks associated with it. Therefore the asset classes that the RPS is invested in are closely monitored to ensure that assets are not exposed to unnecessary risk as a result of investment choices. Further details of pooled fund investment exposures can be found within the consolidated pooled fund accounts in Appendix J.

2010 valuation

The most recent triennial actuarial valuation is as at 31 December 2010. This is the second valuation of the Scheme under the provisions of the Pensions Act 2004. Under these provisions the Trustee and employers need to agree a Statement of Funding Principles which sets out the basis for calculating the Technical Provisions and the period within which any shortfall is to be recovered.

The deadline for the Trustee and employers to finalise the valuation reports is 15 months after the valuation date, which for this valuation was 31 March 2012. Twelve sections finalised their valuation reports by the 31 March 2012 deadline. The main factors that led to sections missing the deadline were the difficulty in finalising the valuation assumptions and the employers' covenant assessments with some employers, and the statutory consultation periods of at least 60 days between employers and affected members.

Valuation proposals have now been agreed for 96 of the 101 shared cost sections that existed on 31 December 2010, and valuation reports have been finalised for 89 of these. One section no longer requires a valuation because it no longer has any members or any assets. Valuation proposals have not been agreed for four sections, and the Trustee continues to engage with these employers and to keep the Pensions Regulator informed of progress.

Pension Protection Fund ('PPF')

The PPF became operational on 6 April 2005 and impacts upon most defined benefit schemes in the UK which have to pay levies to the PPF. The PPF will pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

Schemes or sections with a Crown Guarantee are ineligible to join the PPF and therefore do not pay the PPF levy.

Insolvent employers

During November 2010, the PPF confirmed that the Fastline, Jarvis Facilities Limited and Relayfast Group Sections of the RPS entered a PPF assessment period as a result of the insolvency of the Jarvis Group in March 2010.

In addition, three employers in the Omnibus Section also entered a PPF assessment period during 2010, due to the companies entering administration. These three employers are: Catalis Limited; Bridgen Holdings Limited; and Western Track Engineering Limited. All the members associated with the above employers have since transferred to the PPF in early 2013, with the exception of the members of the Jarvis Facilities Limited Section, who are expected to transfer to the PPF in due course.

In addition to the above companies, there are some other participating employers within the RPS that are no longer trading or who are in administration. Further details are given in Note 9 of the Audited Financial Statements.

The Trustee Company Annual Report

The Trustee Company's Directors as at 31 December 2012

Derek Scott (Chairman of the Trustee) - Derek is a Scottish chartered accountant specialising in professional trusteeships and has also held a number of non-executive directorships. His other industry-wide, multi-employer scheme experience includes chairing the Stagecoach Group Pension Scheme since 1987, and he is also a former Government-appointed trustee of the Mineworkers' Pension Scheme (2004-2008). Derek was a member of the NAPF Investment Council from 1998 to 2006 and vice chairman for 2005 and 2006. He was first elected as a Trustee Company director in 1997.

Mick Cash (Chairman of the Executive Committee) - Mick is Senior Assistant General Secretary of the RMT. He joined British Rail in October 1978 and left railway employment to become a full-time Union official in April 2002. Mick sits on the Network Rail Pensions Committee and was previously a member of the Carillion Rail (GTRM) Pensions Committee. He is also a Trustee of the Network Rail Defined Contribution and CARE Schemes. Mick was appointed as a Trustee Company director in 2004.

John Chilman (Chairman of the Investment Committee) - John is Director of Reward & Pensions at FirstGroup plc. A chartered accountant by qualification, he has worked for a number of large companies, including PricewaterhouseCoopers, South Western Electricity, Shell and HBOS in pensions, financial and commercial roles. John has pensions experience dating back 20 years and is a trustee of FirstGroup pension arrangements in the USA and Canada. John was appointed as a Trustee Company director in 2007 and a Non-Executive Director of RPMI in 2009.

Tony Cotgreave - Tony was employed in the railway industry for 39 years until retiring in 1990. He has been a member of the 1994 Pensioners Section Pensions Committee since 1997, nominated by the British Transport Pensioners' Federation and the Retired Railway Officers' Society. Tony was appointed as a Trustee Company director in June 2005.

Richard Goldson OBE (Chairman of the RPMI Board) - Richard was, until 31 March 2011, a Non-Executive Director of the Office of Rail Regulation. Since 1 April 2011, he has been a Specialist Adviser to the House of Commons Transport Committee. In his earlier career, he spent

36 years working in the railway industry, including, for the final nine years, with National Express Group plc as Rail Development Director. He was a member of the BR Pensions Committee from its inception until 1997 and was elected as an employer director of the Trustee Company in 1998 and re-elected for further terms in 2004 and 2010. He is also a Trustee of the Railway Benefit Fund, one of the industry's leading charities. In 2009, Richard was appointed as a Non-Executive Director of RPMI and Chairman of its Board.

Dave Gott - Dave joined British Rail in 1980 and works in the signalling grades in the Lincoln/Retford areas. He was elected to the BRSF Management Committee in 2001 and elected to the Network Rail Pensions Committee in 2005. Dave was appointed as a director of the Trustee Company in 2007 and re-elected in 2012.

John Hamilton - John is a chartered accountant and is the Group Taxation Director and the Director of Pensions and Employee Benefits at Stagecoach Group plc, where he is also an experienced trustee of the group's pension scheme. John was appointed a director of the Trustee Company in 2008.

Chris Hannon (Chairman of the Benefits & Funding Committee) Chris is Head of Pensions at Network Rail where he is responsible for the management and operation of its defined benefit and defined contribution pension schemes. In that role he also supports the trustee board of the in-house pension arrangements and serves on the Network Rail Pensions Committee. He has over 30 years of company pensions experience and, prior to joining Network Rail in 2004, has held management and trustee supporting roles with several private sector employers, including Safeway Supermarkets plc and Thomas Cook Group. Chris was appointed a director of the Trustee Company in 2005.

Charles Harding - Charles joined British Rail at Crewe ETD as an Engineer in 1989 and currently works for a major rail freight operator. Charles has been a Senior CSEU Representative since 1998 and is a Lead Railway Organiser for Unite the Union. Charles was appointed as a director of the Trustee Company in 2007.

John Mayfield (Chairman of the Audit Committee) - John worked as the British Railways Board's Chief Internal Auditor and then as Finance Director at the British Rail Property Board until he retired in 1993. He is a past president of the Retired Railway Officers' Society and a former director of Railnews Limited. He was a member of the 1994 Pensioners Section Pensions Committee from 1994 to 1997 and was

appointed as a director of the Trustee Company in 1996.

Russell Mears

Russell joined Railfreight Distribution in 1993 after qualifying as a chartered accountant with Kingston Smith. He has since held a variety of senior financial posts within the Freightliner Group, becoming Chief Financial Officer in January 2005. Russell was appointed as a director of the Trustee Company in July 2010.

Stephen Richards (Chairman of the Case Committee)

Stephen joined the rail industry in 1972. He has been the Transport Salaried Staffs' Association nominated Director of the Trustee Company and its predecessor since February 1993. Stephen is also a member of the Atos Origin Pensions Committee.

David Simpson - David joined the rail industry in 1986 as a BR Management Trainee and since then has worked in a variety of operational roles across the UK, including in East Anglia and the Midlands. In 2005, he moved to Scotland where he is Network Rail's Route Managing Director. He was appointed a director of the Trustee Company in 2010.

Gary Towse - Gary joined the British Transport Police in 1974 and served in the South East Area. He was a Committee member of the British Transport Police Force Superannuation Fund from 1992 to 2006. He was elected as the Treasurer of the British Transport Police Federation between 1996 and 2006. Gary was appointed as a director of the Trustee Company in 2004 and a Non-Executive Director of RPMI in 2009.

Dave Tyson - Dave was appointed as a Trustee Company director in February 2001 and a Non-Executive Director of RPMI in 2009. He is a train driver based at Norwich, where he joined the railway industry in 1980. He has served on the BR, Anglia and 1994 Pensioners Pensions Committees. He is the former president of ASLEF's Executive upon which he served between 1994 and 2004.

John Wilson - John is an Actuary and was formerly employed by British Rail where he worked with others in establishing the Railways Pension Scheme. He has nearly 40 years' experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS. He was appointed a director of the Trustee Company in 2008.

The Trustee Company's Directors as at 31 December 2012

Trustee board and committee meetings attended:

 Number of meetings attended
  Number of meetings eligible to attend



Derek Scott	Mick Cash	John Chilman	Tony Cotgreave	Richard Goldson OBE	Dave Gott	John Hamilton	Chris Hannon
Chairman of the Trustee	Chairman of the Executive Committee	Chairman of the Investment Committee	Nominated by: British Transport Pensioners' Federation	Chairman of the RPMI Board	Nominated by: National Union of Rail, Maritime & Transport Workers (RMT)	Appointed by: Passenger Train Operating Companies	Chairman of the Benefits & Funding Committee
Appointed by: All employers	Nominated by: National Union of Rail, Maritime & Transport Workers (RMT)	Appointed by: Passenger Train Operating Companies	Term of office ending: 2016	Appointed by: Passenger Train Operating Companies	Term of office ending: 2018	Term of office ending: 2014	Appointed by: Network Rail
Term of office ending: 2016	Term of office ending: 2016	Term of office ending: 2018		Term of office ending: 2016			Term of office ending: 2018



Charles Harding	John Mayfield	Russell Mears	Stephen Richards	David Simpson	Gary Towse	David Tyson	John Wilson
Nominated by: Confederation of Shipbuilding & Engineering Unions (CSEU)	Chairman of the Audit Committee	Nominated by: Freight Train Operating Companies & Support Services	Chairman of the Case Committee	Nominated by: Network Rail	Nominated by: British Railways Superannuation Fund Management Committee	Nominated by: Associated Society of Locomotive Engineers and Firemen ('ASLEF')	Appointed by: Freight Train Operating Companies & Support Services
Term of office ending: 2014	Nominated by: Retired Railway Officers' Society	Term of office ending: 2016	Nominated by: Transport Salaried Staffs' Association ('TSSA')	Term of office ending: 2014	Term of office ending: 2016	Term of office ending: 2016	Term of office ending: 2014
	Term of office ending: 2014		Term of office ending: 2018				

The Trustee Company Annual Report

Membership and activities of board and principal committees as at 31 December 2012

Attendance at the Trustee Board is shown in the table below. The Trustee Board maintains oversight of the RPS and has delegated certain functions to five principal committees.







Member	Number of meetings attended	Number of meetings eligible to attend
 Derek Scott (Chairman)	5	5
 Mick Cash	5	5
 John Chilman	5	5
 Tony Cotgreave	5	5
 Richard Goldson	5	5
 Dave Gott	4	5
 John Hamilton	5	5
 Chris Hannon	4	5
 Charles Harding	3	5
 John Mayfield	5	5
 Russell Mears	5	5
 Stephen Richards	5	5
 David Simpson	2	5
 Gary Towse	5	5
 David Tyson	5	5
 John Wilson	5	5

A short report has been prepared on each of the Trustee Board's principal committees which provides an overview of the main activities of each committee during the year. The reports also list all meetings which Committee and Board members were eligible to attend, except for the Trustee Investment Monitoring Meetings of which there were two during the year. All Trustee Directors may, and some often do, attend meetings of the Trustee Board's Committees in addition to those of which they are formally members.

Audit Committee

The purpose of the Audit Committee is to decide, consider and report on matters relating to the appointment of external auditors, financial reporting arrangements, the work of external audit and Business Assurance and internal control systems.

The Audit Committee comprises six directors of the Trustee Board, and includes members with appropriate accounting qualifications and experience. External auditors and the Business Assurance team attend meetings at the invitation of the Committee, and relevant directors and officers of RPMI and Railpen Investments also attend as appropriate. Membership and attendance during 2012 are shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 John Mayfield (Chairman)	3	3
 Tony Cotgreave	3	3
 John Hamilton	3	3
 Russell Mears	3	3
 Derek Scott	3	3
 Gary Towse	3	3

In addition to the above scheduled Audit Committee meetings, there were also three Risk Management Committee meetings during the year that all Audit Committee members were eligible to attend.

The key responsibilities of the Audit Committee are outlined in a formal Terms of Reference which is regularly reviewed and updated and includes:

- appointment of the external auditor;
- reviewing the adoption of accounting principles and policies;
- reviewing aspects of the annual accounts;
- reviewing the scope and plans of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee Company and operating companies.

The Committee meets at least twice a year to discuss, consider and review the audit work of the external auditors, financial reporting arrangements, the work of the RPMI Business Assurance team and general internal control issues. The Committee also reviews the Annual Report and Audited Financial Statements prior to Board approval.

During 2012, the Committee met on three occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2011, received reports on the progress of the 2012 internal audit plans, and considered and approved the internal audit plan for 2013. In addition, the Committee received and considered reports from Business Assurance summarising the activities of the Risk Management Committee and its work in facilitating the Trustee's risk management process.

The Audit Committee co-ordinates and monitors the risk management process, ensuring that it is effective in identifying, evaluating and managing the key risks faced by the Trustee. On a day-to-day basis, this is delegated to members of the Risk Management Committee, which meets three times a year and is attended by representatives of the Audit Committee. At its meetings in April and November 2012, the Committee considered and reviewed the results of a specific Trustee Workshop designed to facilitate a review of Trustee risks prior to submission to the full Trustee Board. The risk management process is outlined in more detail at Appendix E.

Financial reporting matters considered by the Committee in 2012 included the Annual Report and Financial Statements of Railtrust Holdings and the Trustee Company, the operating companies (RPMI and Railpen Investments), railways pension schemes and pooled funds. The Committee also received and considered the Report by the External Auditor on the 2011 Report and Financial Statements and the External Audit Strategy for 2012. In addition, the Committee considered the requirements of the current Statement of Recommended Practice (SORP) disclosure requirements and a review of the Enhanced Disclosure Working Group Checklist.

The Trustee Company Annual Report

As part of these reviews, the Audit Committee has specifically considered the processes that enable reliable and relevant valuations of the Scheme's assets. The Trustee Company retains BNY Mellon to provide the valuation of quoted securities, and an independent property valuer for UK properties. BNY Mellon in turn relies, wherever possible, on independent sources of data, ensuring that the vast majority of the Scheme's assets are priced completely independently of the fund managers' valuations. In addition, as part of the audit of the year-end financial statements, the external auditors perform their own independent valuation of scheme assets and compare this to the Trustee Company's valuation, reporting any material discrepancies to the Audit Committee. The Audit Committee is satisfied that these arrangements are robust.

More detail on the specific valuation principles adopted for each category of investments can be found in the accounting policies set out on page 8.

Other matters considered by the Committee were the Internal Control Assurance Report (ISAE 3402 and AAF 01/06) prepared for the pensions administration business of RPMI for the periods from 1 January 2011 to 31 December 2012, Trustee expenses, the Trustee hospitality and gifts policy and how RPMI achieves value for money in its provision of administration services. In addition, the Committee noted that RPMI had met the targets set by the Pensions Regulator for reporting basic data.









The Committee also receives reports of any significant security incidents or frauds and will consider any governance issues arising from external or internal reports via the Policy for Confidential Reporting of Concerns. There were no reports received under the Confidential Reporting of Concerns Policy.

At each meeting of the Committee, private discussions are held in a closed session with the external auditors and the Business Assurance manager.

The Audit Committee is satisfied that it has received sufficient, reliable and timely information to satisfy itself that the control and risk management systems are operating effectively.

Benefits and Funding Committee

The main responsibilities of the Benefits and Funding Committee ('B&F') are to manage the actuarial valuation process for the RPS and decide on contributions, benefits and other changes to sections in the railway industry pension schemes. The membership and attendance of the Committee during the year is shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 Chris Hannon (Chairman)	9	9
 Mick Cash	6	9
 John Hamilton	6	9
 Charles Harding	8	9
 Russell Mears	9	9
 Stephen Richards	9	9
 David Tyson	7	9
 John Wilson	7	9

Valuation

The B&F has had another very busy year. The actuarial valuation of the Railways Pension Scheme as at 31 December 2010 is substantially complete for most sections, covering over 99% of the active membership. This is a major undertaking which is required every three years. Each of the 101 sections of the RPS as at 31 December 2010 is treated as a separate entity with its own valuation results. This valuation falls under the Pensions Act 2004, and means that agreement on the valuation results is needed from each sponsoring employer.

There has been extensive engagement with employers, covering proposals on the valuation assumptions, changes to benefits and agreeing contributions going forward.

A report from the Scheme Actuary is included on page 35 which refers to the requirement to produce individual Statements of

Funding Principles and Schedules of Contributions for each section as at 31 December 2010. The individual actuarial certificates of the latest completed valuation for each section have not been included in the annual report but are available on request from RPMI.

The B&F agreed the results of the annual funding update at 31 December 2011. These results have been sent to employers and show the change in funding position over 2011.

Towards the end of the year, the B&F's thoughts have turned already to the next valuation, due as at 31 December 2013.

Employer covenant

A key factor when considering each valuation is the strength of the sponsoring statutory employer, and the B&F continues to have the challenging task of assessing this for all the sponsoring employers in the RPS. In undertaking this work, the B&F is now advised by an experienced in-house team within RPMI.

For the 2010 valuation, the B&F has agreed a range of covenant enhancement proposals with employers to improve their covenant assessments. These include a range of guarantees, loan subordination agreements, and security over assets and other arrangements with a potential value of in excess of £600m.

As well as assessing employer strength for valuation purposes, the B&F also considered the impact of various corporate transactions. In many cases, the B&F pursued and agreed mitigation payments with the employers which resulted in additional contributions going into specific sections of the Scheme.

Rule changes

During the year, the B&F agreed a range of benefit and contribution changes for individual sections of the RPS. Each proposal from an employer, after review by Pensions Committees where applicable, is considered in detail and the impact on funding and contributions addressed. Changes are then reflected in the Rules of the section.

The Omnibus section is a section for non-associated employers where the assets and liabilities are pooled for investment and funding purposes. The B&F has considered the debts arising when

The Trustee Company Annual Report







Omnibus employers no longer have active members in the section. This has resulted in payments being made into the section.

The B&F also progressed the changes to arrangements for specific sections resulting from corporate reorganisations within groups of sponsoring employers or changes to franchises affecting train operating companies.

During 2012, our relationship with the Pensions Regulator has continued to develop. The Regulator's representatives have a better understanding of the complexity and the atypical shared cost nature of the RPS. This has helped the Regulator's funding team when it becomes involved with the Scheme in considering whether individual sections remain appropriately funded. We have kept them aware of the approach we have taken to the valuation of the Scheme.

Case Committee

The Case Committee meets to consider decisions on case work applications from individual members, where the decision-making powers have not been delegated to a Pensions Committee or to RPMI. The membership and attendance of the Committee during the year is shown in the table, below:

Member	Number of meetings attended	Number of meetings eligible to attend
 Stephen Richards (Chairman)	6	6
 Tony Cotgreave	6	6
 Dave Gott	5	6
 Derek Scott	6	6
 David Simpson	3	6
 John Wilson	6	6

In 2012, the Case Committee held six scheduled meetings.

As at 31 December 2012, the Case Committee had responsibility for 84 sections of the Railways Pension Scheme.

During 2012, the Case Committee considered and made decisions on 147 cases which can be categorised as follows:

- 38 applications and reviews of incapacity benefits
- 52 applications for payment of lump sum death benefit
- 11 applications for spouse's, children's and dependant's pensions
- 20 appeals under stage 2 of the internal disputes resolution procedure
- 8 applications to re-join the Railways Pension Scheme
- 10 applications for early payment of preserved benefits
- 6 reviews of eligible dependant's pension after being in payment 10 years
- 2 forfeiture of benefits cases

During 2012, the Case Committee worked with RPMI to make changes to the administration processes, and also requested the Trust Deed and Rules to be available for members on the website.






In 2012, the Case Committee considered and agreed that the cost-neutral early retirement factors applied if deferred members take their benefits early continue to be appropriate.

Executive Committee

The main responsibility of the Executive Committee is to provide oversight of the operations and management of RPMI on behalf of its shareholder and parent, the Trustee Company. It also serves as the remuneration/nomination committee for Executive Directors of RPMI.

This work includes: approving the appointment and terms and conditions of employment of the directors of RPMI (other than the Chief Executive which is reserved for the Trustee Company); overseeing the financial performance of RPMI and reviewing the service provided to railways pension schemes; and ensuring that stakeholders' views are taken into account and acted upon.

Membership and attendance during 2012 by Committee members are shown in the table above right:

Member	Number of meetings attended	Number of meetings eligible to attend
 Mick Cash (Chairman)	3	3
 John Chilman	2	3
 John Hamilton	3	3
 Charles Harding	3	3
Rob Holden*	3	3
 Gary Towse	3	3

*External nomination

Richard Goldson, as Chairman of the RPMI Board, is invited to attend meetings of the Executive Committee. He attended three out of the three meetings held in 2012.

Transparency and accountability between RPMI and the Trustee Company is ensured through a governance structure that involves four Trustee Directors as Non-Executive Directors of RPMI. The terms of reference of the Executive Committee ensure that no more than two members of the Executive Committee are also Non-Executive Directors of RPMI. In addition, the Chairman of the Executive Committee cannot be a Non-Executive Director of RPMI.

Trustee Directors who were Non-Executive Directors of RPMI during 2012 are Richard Goldson (Non-Executive Chairman of the Board of RPMI), John Chilman, Gary Towse and David Tyson.

After two busy years in 2010 and 2011, formalising the mutual trading relationship between the Trustee Company and RPMI to recognise the established practice and reviewing the charges from RPMI to the RPS up to the end of 2013, the Committee has had more of a business-as-usual agenda. Executive remuneration policies for RPMI Directors established in 2011 were put into effect and the Committee also completed a review of Trustee Director remuneration. Discussions have commenced with RPMI on the charges to be implemented from 2014.












The Trustee Company Annual Report

Investment Committee

The main responsibilities of the Investment Committee are to consider the investment strategy, risk-budgeting and asset allocation for the RPS and to review and monitor the performance of the pooled funds and the underlying investment managers and the custodian.

The Investment Committee met on six occasions in 2012. This was an increase on recent years, reflecting the increased volume of work, notably in respect of section strategies following the 2010 Actuarial Valuation. In addition to the six formal meetings, a Trustee workshop was held on Investment Beliefs which is commented on further in the 'Investment Beliefs' section, right.

The membership and attendance of the Committee is shown in the table below:

Member	Number of meetings attended	Number of meetings eligible to attend
 John Chilman (Chairman)	6	6
 Tony Cotgreave	5	6
 Richard Goldson	6	6
 Chris Hannon	3	6
 Chris Hitchen*	6	6
 Virginia Holmes*	5	6
 John Mayfield	6	6
 Stephen Richards ¹	4	4
 Derek Scott ¹	4	4
 Peter Stanyer*	6	6
 Gary Towse	6	6

* External Appointees

¹ Retired from the Committee on 26 September 2012

Investment Beliefs – a Trustee workshop was held in May 2012 which focused specifically on investment beliefs, the outputs from which were presented back to the Investment Committee for its consideration. In turn, the Investment Committee asked the RPMI Executive to consider its views, which were also fed into the review process. Good progress was made in 2012 in drafting the Investment Committee's recommendations and work continues into 2013.

Investment Strategy – one of the Committee's main tasks is to review section-specific investment strategy. 2012 was a busy year considering such strategies in response to the 2010 actuarial valuation (this work commenced in 2011) and discussions took place at all six meetings of the Committee. In forming its view, the Committee examines the risk (volatility) and return expectations relative to liabilities (referred to as 'risk-budgeting') informed by matters such as the valuation results, employer covenant and section maturity. The Committee adopted a number of policies in the setting of strategies in order to ensure consistency across sections. These involved the adoption of minimum levels of risk necessary to meet funding plans, based on the concept of 'notional portfolios'. Work also commenced on the development of 'liquidity budgets' examining each section's liability cash flow patterns against the liquidity of its investments.

Pooled Funds – the Committee receives periodic economic and market updates which allow it to consider its overall strategy in light of recent events and emerging trends. These updates provide the general context against which decisions are made, such as modifications to the characteristics of pooled funds and strategic asset allocation considerations for the Growth and Defensive Pooled Funds. Some further changes to Pooled Funds were agreed in 2012. The principal issues discussed were the launch of a new 'Defensive Pooled Fund', changes in the Hedge Fund Pooled Fund's arrangements and a refinement of the benchmark for the Non-Government Pooled Fund. The Committee also reviewed and approved the risk parameters for all pooled funds and considered the potential for a transaction of Private Equity Pooled Fund units. The Defensive Pooled Fund shares an important characteristic with the Growth Pool in that it is a multi-asset fund. It has been designed to allow sections to reduce risk without immediately implementing

a fixed allocation to index-linked bonds or an LDI programme, by holding a flexible mix of assets with a lower risk and return target. Following a period of consultation the fund was launched in the third quarter of 2012.

Railpen manages the Growth Pool and decides its asset allocation, in light of the economic and market updates referred to above, within delegated authority limits set by the Committee. The Committee also sets the range of permissible assets for the Fund and proposed ranges when considering risk and asset allocation within the fund. The Committee considered a report on the Growth Pool's performance since inception and adopted a 'Balanced Scorecard' to sit alongside the main long-term return target of RPI + 5%.

A major review of funds that support the Trustee's AVC (i.e. BRASS) and DC arrangements was initiated in the second half of 2011. This prompted a range of proposals which was considered at many of the Committee's meetings in 2012. The focus is now on implementation of agreed changes and is planned for later in 2013.

The Committee also considered a report summarising the results of an annual review of the services provided by the Trustee's global custodian.

Investment Managers – manager appointments are determined by Railpen Investments under an investment management agreement with the Trustee. It was however agreed that the Investment Committee should continue to comment on significant manager appointments and terminations. In addition, there were two 'Trustee Monitoring Meetings' at which Trustee Directors met a selection of the Scheme's external fund managers and two further meetings where Pensions Committee representatives were given the opportunity to meet a selection of managers.

Corporate Governance – the Investment Committee oversees the extensive governance activities undertaken by the Scheme globally. In this regard, the Committee sets the policies to be pursued and received regular reports on key issues arising from AGM activity in the main global markets in which the Scheme has investments. The Committee undertook an annual review of its Stewardship

The Trustee Company Annual Report

Compliance Statement and its UK Corporate Governance Policy. In addition, the Committee considered the Kay Review of UK equity markets and long-term decision-making.

Overall investment governance – in late 2012, the Committee considered an outline proposal for undertaking a detailed review of investment decision-making within the rail schemes, based in part on a high level study carried out by independent consultants.

This work continued in 2013, and a more detailed proposal was approved by the Committee in its first meeting in 2013. The resulting review will include a re-evaluation of the Trustee's investment beliefs, along with more fundamental evaluation of the processes and operations employed in the Investment process.

“ The Investment Committee oversees the extensive governance activities undertaken by the Scheme globally ”



Investment Report

Introduction

The Trustee is responsible for ensuring that investment strategies are agreed for all sections of the RPS. It does this with advice from its executive arm, RPMI, and using its Investment Committee (or a Pensions Committee where established) and the Benefits and Funding Committee. The policies that control how the assets of each section of the Railways Pension Scheme are invested are set out in Statements of Investment Principles; copies are available on request.

The Trustee's Investment Committee also has delegated authority for most of the Trustee's investment responsibilities; it decides on appropriate investment policies and management arrangements. It has appointed Railpen Investments as its provider of investment management services. In this capacity, Railpen is regulated by the Financial Services Authority as an Occupational Pension Scheme firm. It acts mainly as a manager of managers, but also takes some significant investment decisions directly.

Investment management arrangements

The assets of the Scheme are invested through a number of pooled investment funds, each with a different risk and return profile. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HM Revenue and Customs. Only railways pension schemes may invest in these pooled funds. Each section holds units in some or all of the pooled funds. The use of these pools enables sections to hold a broader range of investments more efficiently than may have been possible through direct ownership.

In most cases, each pooled fund covers a unique class of asset. However there are also a number of multi-asset pooled funds where the mix of asset classes is variable depending on market conditions and opportunities, which these funds seek to exploit in order to capture returns more efficiently and effectively than the single asset pools. They enable RPS sections to hold a managed portfolio of assets rather than a fixed allocation, which should have a more stable return profile.

Each pooled fund has a performance benchmark and risk parameters within which additional returns may be targeted.

Pooled funds are managed largely by external fund management companies selected by Railpen Investments and are actively managed where the opportunities for additional returns are deemed to outweigh the additional costs; that is, the fund management companies try to add value in addition to the benchmark returns through their skilled management of the underlying investments. Passive management, that is index-tracking, is also used to some extent in asset classes where the Investment Committee considers this could be the most cost-effective approach. In order to align more closely the interests of the managers with those of the Scheme, active managers are partially remunerated by fees which vary according to their performance against their benchmark.

During 2012, the specifications of a number of the pooled funds were refined and their management arrangements revised, to ensure they remain fit for purpose in meeting sections' needs. The most significant activities were:

- the introduction of a Defensive Pooled Fund;
- a change in the benchmark of the Non-Government Pooled Fund to 100% investment grade corporate bonds, by excluding securitised bonds;
- a change in the investment management approach of the Hedge Fund Pooled Fund away from funds of funds towards a mixed model including some direct hedge fund exposure;
- a review of the Growth Pool performance since inception and the introduction of a Balanced Scorecard approach to monitoring performance;
- the implementation of additional Growth Pool manager mandates and direct positions;
- a further reduction in the level of risk in the Growth Pooled Fund during uncertain market conditions, primarily through a further cut in the quoted equity holdings and an increase in the level of cash held;
- the management of a significant reduction in the size of the Global Equity Pooled Fund, as sections sold equities prior to moving into the Growth Pool;
- the introduction of permissible risk ranges for all pooled funds;
- a number of changes in the roster of managers.

Exposure to overseas currency risk is controlled by the use of currency hedging. This process removes some of the volatility of sterling returns inherent in investing in overseas markets. There is full hedging of foreign exchange exposure in the Hedge Funds, Government Bond and Non-Government Bond Pooled Funds and a 50% hedge of the overseas currency exposure of the Global Equity Pooled Fund, excluding emerging markets. The Growth Pool may actively vary the extent of its currency hedging over time. All other pooled funds are unhedged.

Investment strategy

The Trustee's Investment Committee sets investment strategy for all sections without a Pensions Committee; the Investment Committee reviews and approves strategies determined by Pensions Committees. In setting strategies for sections, the profile of the liabilities, along with the covenant strength and views of the sponsoring employer, are taken into account.

Investment strategies had traditionally been set as a fixed asset allocation over a three-year period, based on the expected long-term risk, return and correlation characteristics of the various asset classes that may be selected for investment. However, for most sections strategy is now being set as a risk budget, where risk is taken to be the expected volatility of returns relative to long-dated index-linked gilts (a proxy for the liabilities). The risk budgeting approach facilitates a more dynamic approach to asset allocation, which means that prevailing market conditions can be taken into account when managing the level of volatility risk. Each section's strategy is implemented through investment in the appropriate mix of the pooled funds operated by RPMI for the Trustee. For those adopting risk budgeting or wanting to introduce a degree of dynamic asset allocation into their strategy, investment is usually made in the Growth Pooled Fund, which invests in a range of return-seeking assets.

Investment Report

A large number of section investment strategies were reviewed during the year as funding plans were agreed following the 2010 actuarial valuation. The Trustee has established a number of policies in order to promote a consistent approach across sections with similar characteristics. It has adopted a policy of de-risking where there is the scope and the desire to do so and, accordingly, a number of sections were de-risked somewhat during the year. In some cases a policy of dynamic de-risking was adopted in order to reduce risk gradually as funding levels improved.

Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange, or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis. These investments are assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close to accounting fair value.

Investments described as 'unquoted' in the financial statements – mainly property, private equity (including infrastructure), over-the-counter ('OTC') derivatives and hedge funds – are unlisted and there is no organised public market for such instruments. These investments are carried at estimated fair values in accordance with the Trustee Company's accounting policies, as set out in the notes to the financial statements. These asset classes are generally less liquid than quoted or exchange traded investments, either because of the lack of an organised public market, the nature of the instruments or contractual arrangements. For these reasons, it is not usually possible to realise part or all of such assets at short notice.

Economic commentary provided by RPMI

Financial markets began 2012 in a similar fashion to the beginning of the preceding year: they were supported by ongoing central bank intervention. The Federal Reserve, the European Central Bank (ECB) and the Bank of England had indicated continued willingness to take measures intended to support economic growth and help

restore confidence to financial markets. Equity markets benefited strongly in the first quarter of the new year, with the MSCI All Country World Index rising by around 11% in local currency terms. Credit spreads and commodities also benefited from the increase in investors' risk appetite.

However, the rally was also supported by improving economic conditions with the JP Morgan Global Purchasing Managers Index (PMI) – a survey of businesses across the world – reaching its highest level for over a year in February. But the US unemployment rate remained elevated, and at a level inconsistent with the Federal Reserve's mandate. In addition, the euro area economy had slipped back into negative growth the previous quarter, a portent of difficult times to come in the period ahead.

If the first quarter of 2012 had raised investors' expectations, a steady stream of disappointing economic data in the second quarter diminished hopes of a strong recovery and seemed to confirm a broad based global slowdown. The aforementioned JP Morgan PMI declined for three successive months and reached its lowest level since 2009. Reports from China showed slowing growth in both the manufacturing and services sectors in May and June. In addition, labour market data from the US surprised on the downside, a weakening situation reinforced by continued subdued economic news from the euro area.

There was further evidence of the growing difficulties in the Eurozone from a rise in peripheral government bond yields, including two of the more significant markets in Spain and Italy. Rising market concerns over continued euro area difficulties caused equity markets to falter during the quarter while government bonds perceived as safe haven appreciated once more. Nonetheless, equity markets regained some of their momentum into the close of the quarter on renewed optimism that central banks would take further action if necessary.

Indeed, the third quarter witnessed two further important acts of central bank intervention, including arguably the most significant and decisive example from the ECB thus far. In order to end growing speculation that the Eurozone might be forced to breakup amid soaring yields in Spain and Italy, the ECB promised to do 'whatever

it takes' to preserve the single currency. It subsequently announced its Outright Monetary Transactions (OMT) programme, under which the ECB promised to buy in unlimited quantities the bonds of any country with a distressed debt market that had first applied for help from the Eurozone's rescue fund. Subsequently, in September, the Federal Reserve announced a third round of quantitative easing – an open-ended commitment to purchase \$40 billion of mortgage-backed securities per month until the labour market improved 'substantially'.

The economic data generally remained disappointing during this period, however. Chinese GDP growth, although still impressive in absolute terms, had slowed to its lowest rate since the crisis in 2009. Moreover, the euro area continued to be in recession. Indeed, global industrial production growth had broadly slowed to a standstill during the course of the second and third quarters.

However, in the final months of the year, there was a turn-up in some of the economic data, particularly in the US where the labour market and the housing market began to show some encouraging signs. Moreover, the global composite PMI rose to a nine-month high in December despite weakness in the manufacturing sector. These small improvements, added to central bank activism and the prospect of more if needed, managed to push return-seeking assets higher in spite of the uncertainty engendered by the 'fiscal cliff' negotiations in the US. Meanwhile, the ECB's readiness to act as backstop to the Eurozone calmed investors: peripheral bond yields fell over the fourth quarter and have continued declining into 2013.

At the end of December, Shinzo Abe was returned to office as the Prime Minister of Japan, after campaigning on a pro-growth monetary and fiscal stimulus platform. His very public preference for a weaker yen and a higher inflation target triggered a significant rally in Japanese equities and a sharp weakening of the yen.

With the final quarter of the year ending on a positive note, it contributed to an increase of around 13% in the MSCI All Country World Index during the year as a whole. Other return-seeking assets also generally performed well across the period: the spread over government bonds of the Barclays Global Corporate (investment grade) index declined by over 1%, while that of the High Yield

Investment Report

index fell by more than 2%. However, government bond yields in safe haven economies remained low; for example, the 10-year US Treasury yield actually ended the year slightly below its starting level. In addition, long-dated index-linked bond yields in the UK stayed close to zero.

Overall, 2012 was a good year for risk assets as decisive intervention from central banks dominated weak fundamentals, despite growing optimism around the close of the year that a corner may have been turned in the world's major economies. Looking ahead, for markets to continue moving higher, a more robust improvement in the underlying data is necessary. Political wrangling in the US over the fiscal deficit and the situation in Europe arguably, however, still count as risks to near-term economic stability.

Investment performance

During 2012, central bank intervention and some signs of improvement in major economies led to positive returns from most return-seeking asset classes, especially equities. Returns remained volatile, as many issues remained such as the Euro sovereign debt levels. However the support of the ECB means these concerns abated to an extent towards the year end. Most defensive/matching assets also generated positive returns, with the exception of Index Linked Gilts.

The Growth Pooled Fund invests in a wide range of return-seeking assets with flexible allocations based on a risk budget range and a target level of long-term return. Global equities remain the largest asset class holding in the Fund, but the equity allocation was reduced during the year from 42% to around 34% as a lower risk allocation was maintained in the uncertain market environment. Other significant asset segments in the Fund include non-government bonds, property, commodities, fund-of-hedge-funds, absolute return, emerging market debt, and reinsurance.

The Growth Pooled Fund targets a long-term real return of 5% above UK inflation over a market cycle. The return in 2012 was 8.4%, which was slightly ahead of the target return.

The Global Equity Pooled Fund provides diversified exposure to global equities and uses a blend of active and passive

management. The Global Equity Pooled Fund produced a return of 14.1% in 2012, which was broadly in line with the benchmark return.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private equity investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment.

The Private Equity Pooled Fund produced a return of 5.7% in 2012, which was behind the benchmark return. Because of the unquoted nature of these investments, there is often a significant time lag for revised information on underlying investments to flow through to the Fund valuation. Therefore, the return for 2012 includes some of the impact of the falls in value that risk assets suffered in the second half of 2011.

The Infrastructure Pooled Fund had a positive return of 6.1% for the year, which was ahead of the RPI benchmark. The Property Pooled Fund also achieved a positive result in absolute and relative terms, with an overall return of 5.0%.

The Hedge Funds Pooled Fund had a positive return of 8.1% in 2012, which was also ahead of the benchmark return. The Commodities Pooled Fund saw a return of negative 3.6% in 2012 which was nevertheless better than an even more negative benchmark return.

The Defensive Pooled Fund was set up in July 2012. As per the Growth Pooled Fund, this Fund has flexible allocations based on a risk budget range and a target level of longer-term return. It invests in assets which are defensive in nature and as at the end of 2012, holdings consisted of the Non-Government Bond Pooled Fund, Government Bond Pooled Fund and Cash.

The return of 6.4% for the Government Bond Pooled Fund reflected the decline in yields of government bonds in the economies perceived as being higher risk and the continuing low yields of government bonds issued by countries considered a safe-haven. The fund return was ahead of its benchmark. The Non-Government Bond Pooled Fund produced a return of 10.6%, which again was

ahead of the benchmark return. The weakest return within the more defensive assets in 2012 came from the Index Linked Pooled Fund at negative 1.1%. This Fund is managed on a passive basis so the return was broadly in line with the benchmark index. The Trustee also provides a series of Cashflow Matching Pooled Funds within an LDI Pooled Fund which offer the opportunity for more precise matching of section liabilities where appropriate.

Section returns

There is a range of investment strategies amongst RPS sections, reflecting the diversity in terms of liability profiles and employer covenants. In 2012, the investment return produced by section assets ranged between 2% and 11%, although most section returns were in a narrower range of 7% to 8%. This reflected the diversity of returns seen in the major asset classes over the year.

Over a three-year period, the investment returns of RPS sections ranged from 5% to 10% per annum, while over a five-year time horizon, the range of returns was negative 1% to positive 7% per annum.

Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. With the approval of the Investment Committee, and subject to the agreements in place and the constraints on certain portfolios, custodians are able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the Scheme receives collateral in the form of cash or other securities that meet standards set on behalf of the Trustee Company. As a result of operating these securities lending arrangements, the Scheme receives revenues. The custodians also operate indemnification programmes which protect the Scheme against defaulting borrowers. The Scheme retains economic exposure to the lent securities, for example by receiving dividends, but loses voting rights temporarily. The Trustee Company retains the right, however, to recall securities if an important vote is scheduled.

Investment Report

Government support

The Transport Act 1980 provides financial support for the British Railways Board's historical obligations. These obligations are met partly in cash and partly by means of substitution orders from the Government.

Self-investment

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their jobs and part of their pensions at the same time, should their employer's business fail.

The RPS is in a special position. It is a multi-employer scheme for non-associated employers, with actuarially independent sections. The rules for self-investment therefore apply on a section-by-section basis.

Investment decisions on the purchase and sale of employer-related investments are taken by external investment managers acting within discretions given to them by the Trustee Company. RPMI regularly monitors investment manager activity to ensure that statutory limits on self-investment are not breached.

BRASS (AVC) investments (excludes IWDC and DC arrangement)

Railways Pension Scheme holding at 31/12/12 = £1,306m
Total value of fund at 31/12/12 = £1,313m

The main AVC arrangement for the RPS, known as 'BRASS', is administered by RPMI and invested in a number of different investment vehicles. The greater part of the fund is invested in the Pension Assured Fund ('PAF') with underlying investments managed by Aviva Investors and Legal & General. Units in the PAF are guaranteed by Aviva to be worth at least £1 each to the unit holders at age 55 or on earlier death. Members retiring before age 55 may receive a discounted value depending on their age. The fund has been closed to contributions since 2007. Aviva is responsible for provision of the guarantee and the overall management of the PAF, including the issue of bonus units, asset allocation, pricing and administration of dealing in the units, subject to monitoring by RPMI. Approximately 80% of the underlying assets are invested in a long-term bond fund and a cash portfolio, with the majority of the balance in an actively managed global equity fund. These assets are managed by Aviva Investors.

The five current BRASS funds into which new members can invest are the Global Equity Tracker Fund, Bond Fund, the Growth Fund, Cautious Fund and the Pension Deposit Fund. The Trustee may from time to time change the range of funds made available to the members.

The remainder of the BRASS is invested in one of six funds that are either closed to future contributions or which will only take new contributions from members who had already invested some money in them prior to 1 September 1996. These are the Pension Managed, Pension Overseas Equity, Pension Property, Pension Fixed Interest, Pension Equity and Pension Index Linked Gilt funds.

The investment benchmarks for the BRASS funds other than the PAF are shown in the table below:

Fund	Benchmark
Pension Deposit Fund	Rolling 7 day LIBID
Bond Fund	The FTSE All Stocks Gilt Index
Growth Fund	n/a
Cautious Fund	n/a
Pension Managed Fund	The WM All Funds Index (excluding property)
Global Equity Tracker Fund	50% FTSE All-Share Index 50% Weighted FTSE World Series Regional Indices
Pension UK Equity Fund	The FTSE All-Share Index
Pension Overseas Equity Fund	Composite index comprising regional indices from the FTSE World Index Series
Pension UK Property Fund	IPD Total Return Index
Pension Fixed Interest Fund	Composite index comprising the FTSE Government All Stocks and iBoxx Non-Government Bond Indices
Pension Index Linked Gilt Fund	The FTSE Over Five-Year Index-Linked Gilt Index

Actuary's Report

The 31 December 2010 valuation

An actuarial valuation of the Railways Pension Scheme has been carried out as at 31 December 2010. This is the sixth valuation of the Scheme, the previous valuation having been carried out as at 31 December 2007. As for the 2007 valuation, the 2010 valuation has been carried out to satisfy the scheme funding regulations in addition to the requirements of the Scheme's Trust Deed and Rules.

The main purpose of the valuation is to set the future contributions to be paid into each Section. In order to do this, a large number of assumptions need to be made and the Trustee and I have consulted widely on the assumptions and methodology for this valuation. Ultimately it is necessary to reach agreement on these matters with the Designated Employer of each Section.

The formal documentation required to complete the valuation for each Section includes a Statement of Funding Principles (which sets out the Statutory Funding Objective for the Section), a valuation report, a Recovery Plan (for those Sections with an overall valuation shortfall) and a Schedule of Contributions. At time of writing, the 2010 valuation, including the formal documentation, has been completed for 82 Shared Cost Sections and for the 1994 Pensioners Section. Furthermore, there are 11 Sections where agreement has been reached between the Trustee and Designated Employer and where the formal documentation is expected to be completed shortly.

The average funding level, that is the extent to which the assets cover the funding target for the Sections for which the 2010 valuation has been finalised, is 97%. 28 Sections have a funding level above 100%. Over the course of the 2010 valuation process, so far 14 Sections made changes to the benefits to be accrued for future service.

Discussions are underway with relevant parties to reach agreement, and therefore finalise the valuation and all necessary formal documentation for the remaining seven Shared Cost Sections, as soon as possible. We are working closely with the Trustee and employers to try to find appropriate solutions for each individual Section.

The 31 December 2011 annual update

In order to satisfy the requirements of the Pensions Act 2004, an interim funding update needs to be completed for each Shared Cost Section in each year in which a full actuarial valuation is not completed. The legislative requirements in connection with the annual update do not require the assumptions and methodology to be formally agreed between the Trustee and Designated Employers. The assumptions used are set using a consistent approach with that used at the most recent full valuation and with the Statement of Funding Principles. For each Section, a short report is issued which sets out how the funding position may have changed since the last assessment.

At time of writing, the annual update as at 31 December 2011 has been completed for 81 Sections, that is for most of those Sections for which the 2010 valuation has been completed. These showed that for most Sections funding levels have reduced by between 5% and 10% over the year to 31 December 2011. This is mainly a result of returns on most asset classes being lower than had been assumed would be achieved. In addition, changes in the outlook for future investment returns and contribution payments had an impact on the results.

No formal action is required to be taken by the Trustee or Designated Employers following this annual update; in particular, the Schedule of Contributions agreed for each Section following the 31 December 2010 valuation remains in force and is not required to be reviewed again until the next full actuarial valuation of the RPS as at 31 December 2013.

In addition, initial actuarial valuations as at 31 December 2011 are currently in progress for two new Sections of the RPS: the Hull Trains Section and the London & North Western Railway Section.

Defined Contribution arrangements

The RPS encompasses the Defined Contribution Arrangement and the Industry Wide Defined Contribution Section. These arrangements are excluded from the valuation and annual updates.

Future actuarial assessments

Another interim funding update will be carried out as at 31 December 2012. The results of this exercise will be prepared and communicated during 2013. Furthermore, initial actuarial valuations will be completed as at 31 December 2012 for two new Sections of the RPS: the Voith Section and the AMCO Section.

Planning and preparation is already underway for the next formal actuarial valuation, which will be undertaken as at 31 December 2013.

James C Wintle Actuary to the Railways Pension Scheme

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

18 January 2013

APPENDICES

37 Appendix A
Principal advisers to the Trustee Company

38 Appendix B
Payment of contributions

39 Appendix C
Custody arrangements

40 Appendix D
Responsible investment

42 Appendix E
Risk statement

43 Appendix F
Trustee liability insurance

44 Appendix G
Summary of the main provisions of the Scheme

46 Appendix H
Dispute resolution process

47 Appendix I
Where to go for help

48 Appendix J
Pooled fund accounts

APPENDIX A: Principal advisers to the Trustee Company

Manager of investment managers	Railpen Investments, 2nd Floor, Camomile Court, 23 Camomile Street, London, EC3A 7LL
Scheme and investment administrator	RPMI, Stooperdale Offices, Brinkburn Road, Darlington, DL3 6EH
Actuaries	James Wintle, Towers Watson Limited Trevor Llanwarne, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External auditors	KPMG LLP
Solicitors	Herbert Smith Freehills, Linklaters, DWF, Eversheds, Maclay Murray & Spens, Simmons & Simmons
Principal custodians	The Bank of New York Mellon
Clearing Bankers	The Royal Bank of Scotland Group plc



APPENDIX B: Payment of contributions

Participating employers

The Trustee Company collects contributions from most employers participating in the Scheme. As at the year-end, there were 162 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result, the Trustee Company deals with employers based at approximately 170 different addresses and 200 distinct payroll combinations.

Due dates for payment of contributions

Under the provisions of the Pensions Act 1995, it is the responsibility of each employer to pay contributions on time. The Trustee Company is required to prepare, maintain and monitor schedules setting out the dates by which contributions should be received. These dates then become the legal due dates for application of the Pensions Act 1995.

Sections in the Shared Cost Arrangement

The Trustee Company is required to maintain a schedule of contributions for every section of the Scheme. This schedule sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and also shows the dates on which the contributions are due. Each schedule must be certified by the Scheme Actuary as being sufficient to ensure that the funding objective will continue to be met for the next five years, or will be met by the end of the recovery period.

The schedules of contributions that the Trustee Company has prepared for the Scheme require payment to be made by the due date set out in the Rules, which is seven working days after the relevant members are paid (compared to the 19th day of the following month under legislation). The Scheme Actuary revalues the Scheme every three years. The valuation and schedules of contributions must be signed off within 15 months of the valuation date. The schedules of contributions must be signed by both the Designated Employer and the Trustee Company.

Sections in the Defined Contribution (money purchase) Arrangement and the Industry-Wide Defined Contribution Section

As at 31 December 2012, there were 18 employers actively contributing to the Defined Contribution Arrangement and the Industry-Wide Defined Contribution Section. Collection of contributions from these employers is governed by a payment schedule. This is similar to a schedule of contributions, and again sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and the dates on which the contributions are due. Payment schedules do not have to be certified by the Scheme Actuary, but must be prepared by the Trustee Company and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

Late payment of contributions

The Trustee Company is required by law to report to the Pensions Regulator late payments of contributions which are of material significance.

The Trustee Company takes the collection of contributions very seriously, and also maintains a dialogue with the Pensions Regulator from whom it seeks advice on best practice. Breaches of the regulations deemed significant by the Trustee Company are reported in accordance with both applicable law and the Pensions Regulator's recommendations.

Employers are encouraged to participate in the Trustee Company's direct debit arrangements for all invoiced amounts, which greatly reduces the risk of an employer failing to pay contributions on time.

During 2012, there were 215 instances of late payment of contributions with a total value of £1m, which represents 0.2% of contributions payable under the schedules of contributions. The largest individual amount was £171,000 which was paid two days after the due date.

“ The Trustee Company deals with employers based at approximately 170 different addresses and 200 distinct payroll combinations. ”



APPENDIX C: Custody arrangements

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee Company has appointed custodians to hold the assets, including cash, that make up the various quoted securities portfolios managed by the investment fund managers. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

The custodians are responsible for the administration and safekeeping of the assets. Safekeeping can be defined as the preservation of assets under a system of control that ensures that assets are only released with proper authorisation, and that the custodian's clients' investments are legally segregated from those of the custodian.

Other arrangements which seek to ensure asset safety, and to protect evidence of title, are in place for certain asset classes such as hedge funds and property. In the case of property, freehold and leasehold property is normally registered at HM Land Registry, where appropriate, and copies of all title documents are held by the Trustee Company's property lawyers or the Network Rail property deeds depository.

In the case of investments managed by US fund of hedge fund managers, the Trustee Company has appointed The Bank of New York Mellon as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls. Core administrative functions performed by the custodians include the following:

- settlement of transactions;
- registration and safekeeping;
- collection of income (dividends and interest) arising from investments;
- tax recovery;
- processing corporate actions, including proxy voting where applicable;
- reporting;
- cash management;
- foreign exchange; and
- appointing and operating through sub-custodians in overseas markets.

As part of the services provided to the Trustee Company, RPMI reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians. The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee Company are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions. This is a report on the custodian's internal controls, which is made available to third parties, and is reviewed by the custodian's reporting accountant, in accordance with guidance issued by the Audit and Assurance facility of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70, as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

Although not a regulatory requirement, this constitutes best practice and the Trustee Company will not appoint a custodian that does not produce a report of this type. These reports are reviewed by RPMI's Business Assurance team and external audit as part of the ongoing monitoring of custodians.

APPENDIX D: Responsible investment

Responsible investment

Responsible investment encompasses corporate governance, shareholder engagement and social, environmental and ethical ('SEE') considerations, now more generically described as environmental, social and governance ('ESG') issues. Trustees of UK occupational pension schemes are required by law to address in their schemes' Statements of Investment Principles ('SIP') the extent (if at all) to which SEE considerations are taken into account in the selection, retention and realisation of investments and their policy (if any) directing the exercise of rights (including voting rights) attached to investments. The Trustee Company believes that companies with robust corporate governance structures and interested and involved shareholders are more likely to achieve superior long-term financial performance than those without. We recognise that investors have responsibilities as well as rights and this includes taking ESG issues into consideration in investment decision-making.

General principles

The Trustee Company seeks to promote best practice in responsible investment, voting and engagement by:

- maintaining communications with investee companies, other investors in those companies, and those shaping the debate on corporate governance policy;
- widening the scope of the corporate governance debate to company strategy and shareholder value and contributing at a market level by responding to relevant consultations and other policy development activities;
- promoting compliance with the UK Corporate Governance Code and the UK Stewardship Code, and other statements of recognised best practice in other markets;
- supporting improvements in the quality and clarity of company reporting;
- encouraging best practice in stewardship as a responsible investor; and
- working with other institutional investors to achieve these ends.

Wherever possible, the Trustee Company endeavours, through its external fund managers or directly, to resolve areas of disagreement with the companies in which it invests prior to annual general meetings and strongly supports the principle of comply or explain.

UK Stewardship Code

The Trustee Company considers that its fund managers and other intermediaries have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. We support, and encourage our fund managers to adopt, the Financial Reporting Council's UK Stewardship Code, updated in September 2012, which sets out seven principles on how institutional investors can enhance the quality of engagement with investee companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in our own SIPs, and to publish a compliance statement. Our full statement on how we apply the Code and its seven principles, together with our approach to responsible investment, can be found on our website at www.rpmi.co.uk

We encourage our external fund managers to make an AAF 01/06 report on Stewardship Code compliance and to obtain an independent audit opinion which can be disclosed to clients as recommended in the guidance to Principle 7 of the Stewardship Code. The Trustee Company wishes to lead by example on this and has obtained an independent audit opinion on aspects of its own Stewardship Code compliance as at 30 September 2011 which is available to members on request.

Voting and engagement

Although the Trustee Company's external UK-based fund managers are expected to advise and report on governance issues, and to engage proactively with companies in line with the Stewardship Code, full voting authority ultimately rests with the Trustee Company. In addition to the monitoring of the activities performed by fund managers and other intermediaries, the Trustee Company, through RPMI Railpen Investments, will undertake further engagement activities in relation to individual companies, whether independently

or with other parties, where it considers it in the best interests of beneficiaries to do so.

UK voting and engagement alliance

Since 2010, RPMI Railpen Investments has worked with the Universities Superannuation Scheme, another major UK pension fund with a strong commitment to responsible investment, to establish a voting and engagement alliance through a joint UK corporate governance and voting policy which was last updated in December 2012, and will continue to be regularly refreshed in light of major governance developments. It can be found on our website at www.rpmi.co.uk

The policy applies to all UK listed companies, including those that participate as employers in railway industry pension schemes. It draws heavily on the UK Corporate Governance Code and we expect companies to comply with the Code or explain any departures. Our policy document aims to deal with issues that are either not covered by the Code, require greater emphasis, or are specifically left open for shareholders to resolve with company boards. This should help investment managers and company directors to understand our views on these issues.

UK voting disclosure

We publicly disclose on our website, www.rpmi.co.uk, our voting record in respect of all UK company meetings held after 1 January 2010, subject to a waiting period of three months from the end of the month in which the meeting is held, so that we can balance transparency without undermining our ongoing dialogue with companies.

APPENDIX D: Responsible investment

Executive remuneration

Executive remuneration continues to be a major focus of our voting and engagement work. We expect to see significant alignment between the interests of directors and shareholders and urge companies to adopt:

- a simple and transparent structure which provides for a basic salary at market levels;
- a deferred element of the remuneration package; and
- the use of rigorous performance targets for annual bonuses and longer-term incentives, appropriate to the company and its sector, which do not encourage excessive risk-taking and provide for clawback.

The regulatory authorities in the UK and elsewhere are imposing their own requirements for the deferral of annual bonuses as part of their perceived need for more prudent regulation. The UK Government consulted extensively on executive pay reform and will be introducing a binding shareholder vote on forward-looking future remuneration policy ('future policy report') from October 2013, in addition to the existing advisory vote on the retrospective implementation of the policy ('implementation report').

Overseas markets

In addition to our activities in the UK, active voting and engagement has been extended selectively to overseas markets since 2006 and currently extends to the USA, Continental Europe, Japan, Singapore, Australia and Hong Kong. Self-standing policies for several of our overseas markets can be found on our website www.rpmi.co.uk

We work informally with other investors and pension funds around the world, and benefit from the local market expertise that they bring to our own thinking on ESG matters. RPMI Railpen Investments is an active and lead participant in several national, regional and global investor networks, alliances and trade bodies in line with the active share-ownership principles outlined in the Stewardship Code.

These include, but are not limited to, the NAPF, the International Corporate Governance Network, the UK Corporate Governance Forum, the UK Social Investment Forum, the Global Investors Governance Network, the Working Group of the International Integrated Reporting Council and various other investor corporate governance bodies, including the Council of Institutional Investors in the USA, Eumedion in the Netherlands, the Australian Council of Super Investors and the Asian Corporate Governance Association in the Far East. We are also members of Institutional Investors Group on Climate Change.

In addition, we are asset owner signatories to the following major responsible investor initiatives:

UN Principles for Responsible Investment ('UNPRI')
Extractive Industries Transparency Initiative
Carbon Disclosure Project
Forest Footprint Disclosure Project

As well as taking part in UNPRI activities, we also encourage our external fund managers to become asset manager signatories.

Pooled fund equity holdings

The largest ten equity holdings within the pooled fund investments as at 31 December 2012 were as follows:

	£m	
Sanofi	30.86	
Nestle	29.93	
British American Tobacco	29.62	
Samsung Electronics	28.11	
Microsoft Corporation	26.45	
SAP	25.73	
Unilever	25.41	
China Mobile	24.93	
Bank of New York Mellon	22.21	
Sumitomo Mitsui	22.19	

APPENDIX E: Risk statement

The following risk management process operated throughout the year ended 31 December 2012.

Risk policy

The Trustee Company has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and uncertainty, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. The policy takes note of the guidance and principles of the UK Corporate Governance code issued by the Financial Reporting Council in May 2010 and the guidance within the Pensions Regulator's Code of Practice on Internal Controls issued in November 2006.

The objective of the Trustee Company's risk policy is to limit the exposure of the Scheme and the assets that it is responsible for safeguarding to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies. The risk policy is reviewed regularly by management and annually by the Trustee Company, and provides a framework for managing risk on a day-to-day basis.

The risk policy covers all aspects of the Trustee Company's operations and includes the use of third-party service providers.

The Trustee Company strongly encourages its investment managers to publish internal control assurance reports (AAF 01/06, ISAE 3402 or equivalent style reports) on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so. The internal audit plan includes a rolling programme to review the internal control environment of all of the investment managers retained by the Trustee Company.

Risk identification and management

Risks are identified and regularly reviewed by management and directors in a formal process facilitated by the Business Assurance team, which is separate from operational management. Risks are evaluated by considering the likelihood of occurrence and the significance of the consequent impact on the business if they occur.

The risks identified, together with action plans for their management (including responsibilities and target dates for completion), are recorded in the risk register of the Trustee and each operating company, RPMI and Railpen Investments. Actions include implementing or adapting internal controls, risk transfer, risk sharing and contingency planning. These actions are monitored by the Business Assurance team.

The effectiveness of the internal controls is examined by the internal audit plan, which focuses on the significant risks in the risk registers and covers all major activities of the Trustee Company and operating companies. The internal audit plan is approved by the Audit Committee. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the Audit Committee.

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2012. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and the Institute of Chartered Accountants in England & Wales Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Following the acquisition by RPMI of Electricity Pensions Administration Limited (EPAL) in December 2011, an internal controls assurance report (AAF 01/06, ISAE 3402) has also been prepared in respect of the pensions administration service provided by RPMI EPAL, for the six months from 1 July 2012 to 31 December 2012.

Internal audit services are provided to the Trustee Company by the in-house Business Assurance team. The Business Assurance Manager reports to the Chief Executive of the Trustee Company and the Audit Committee, and has unrestricted access to the Chairman of the Audit Committee and the Trustee Board Chairman should the need arise. Internal audit activity is governed by the Audit Charter, which is reviewed periodically by the Audit Committee. The Risk Management Committee is chaired by the Finance Director, and includes representatives of executive management and is open to Trustee Directors. It meets regularly with the Business Assurance team with the external auditors in attendance, to consider the significant risks and assess how they have been identified, evaluated and managed, as well as the effectiveness of the internal controls associated with these significant risks.

Because of the limitations that are inherent in any system of internal control, the Trustee Company's risk management process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable, not absolute, assurance against material misstatement or loss.

IDENTIFY RISK



REVIEW IMPACT



MITIGATION



CHANGE ACTION



RESPONSIBILITY/DATE FOR COMPLETION

APPENDIX F: Trustee liability insurance

Trustee liability insurance is a variant of directors' and officers' insurance which covers some of the insured's liabilities to third parties. Under the strict application of the law of trust, trustees are personally responsible to the full extent of their own wealth for the financial consequences of a breach of trust. This represents a significant risk exposure for the individuals who serve as pension fund trustees and the funds.

Trust deeds typically provide significant protection to trustees through exoneration and indemnification. In many cases, individual trustees are protected from liability for any breach of trust 'not due to personal conscious wrongdoing or recklessness'. This is known as exoneration. The costs are then borne by the scheme rather than by individuals serving as trustees. If the scheme is unable to bear the cost, the sponsoring employers of the scheme may have to meet it. This is known as indemnification.

Trustee liability insurance protects the Scheme as well as the trustee. The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as trustees. However, the scheme assets are still vulnerable even though the trustees themselves have been exonerated. Insurance adds the external resources of the underwriter while exoneration and indemnification provisions merely shift the liabilities among the trustees, the beneficiaries and the employers.

In 1999, the Trustee Company, in recognising the potential benefits of trustee liability insurance, agreed a policy and became a full member of the Occupational Pensions Defence Union whose insurance policy is underwritten by the ACE Group. The policy has been renewed each year since then.

The Trustee Company continues to believe that trustee liability insurance is a significant risk-mitigation measure that offers protection against some otherwise irrecoverable losses.

“ Trustee liability insurance protects the Scheme as well as the trustee. The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as trustees. ”



APPENDIX G: Summary of the main provisions of the Scheme

Introduction

The RPS is a registered Scheme under the Finance Act 2004. All railway employees are eligible to join the Scheme if allowed by their contract of employment.

The members of each of the sections of the Shared Cost and the Defined Contribution Arrangements of the RPS are contracted-out of the State Second Pension ('S2P'). Members of the Industry-Wide Defined Contribution Section are not contracted-out of S2P.

Rules specific to sections

A broad outline of the main provisions of sections that have adopted the Shared Cost Arrangement is given below. However, some employers have introduced rules specific to their section only, which override the summary given below. Each section's rules are available from RPMI to members of that section upon request.

The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the rare event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets in the section. If there are insufficient assets available to secure a minimum level of benefits, the Pension Protection Fund ('PPF') will pay compensation to members at this minimum level. In these situations, the PPF will take over the pension scheme's assets and provide the compensation to the scheme's members. The compensation provided by the PPF would in almost all cases be lower than the pensions that members could have received from the scheme that has been taken over.

Defined contribution sections

Industry-Wide Defined Contribution Section participating employers can choose their contribution rates, normal retirement date and amount of lump sum on death in service. Contributions range from upwards of 5% of pensionable pay, and retirement ages range from 60 to 65. Lump sums are four times pensionable pay on death in service. At retirement, members use their accumulated funds to provide an annuity purchased from an insurance company under an open market option. They can also take tax-free cash up to the HM Revenue & Customs limit. The remaining members within the Defined Contribution Arrangement are all preserved pensioners.

Pension increases

Pensions increased by 5.2% with effect from 9 April 2012. This is based on the Consumer Price Index (CPI) inflation figure as at September 2011. The move from RPI to CPI was introduced for the Fund following the decision by the Government that future public sector pensions would be increased by CPI rather than RPI. The increase from April 2013 was 2.2%. Pensions in payment and deferment in the Fund are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971.

Active members

Contributions

Contributions are based on section pay which is generally pensionable pay, plus any pensionable restructuring premiums ('PRPs') less 1½ times the basic State Pension for a single person. Pensionable pay is basic pay plus, where appropriate, pensionable allowances, excluding PRPs.

PRPs are earnings which, as part of an agreement with the employer to restructure pay, become pensionable for future service only from the date that pay was restructured. Pensionable pay and PRPs are re-assessed on the first Monday in July each year, based on the member's section pay on the previous 1 April. Contribution rates are subject to review at each actuarial valuation.

Additional voluntary contributions

Current members can pay extra contributions through BRASS and AVC Extra to secure additional benefits.

BRASS is the AVC arrangement for the Shared Cost sections. There are limits to the maximum amount that can be paid into BRASS. If members want to pay more than the maximum BRASS limit they can do so by paying the excess into AVC Extra. AVC Extra contributions are invested in the same way as contributions to the Defined Contribution sections.

Death in service

Nominated dependants or personal representatives will receive:

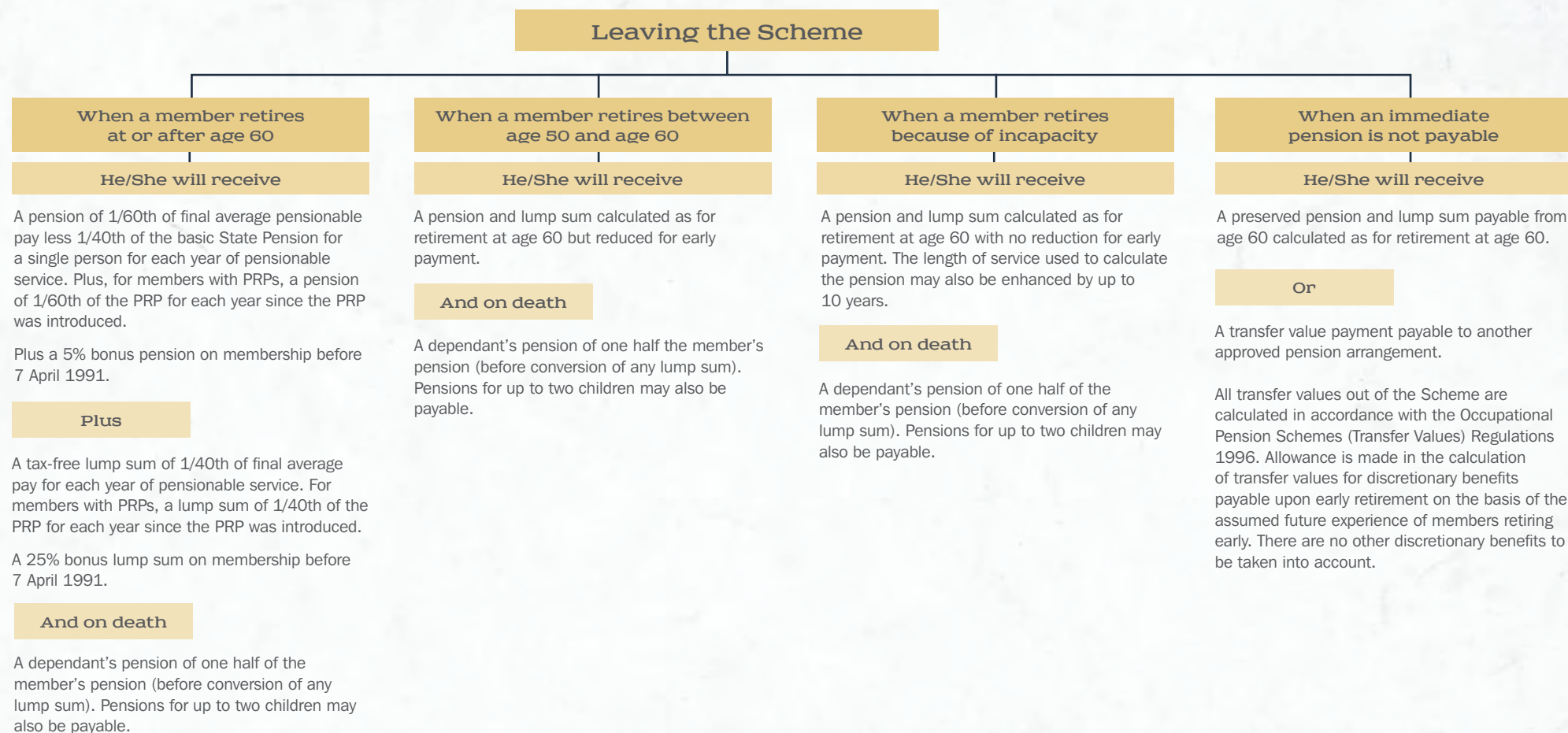
A lump-sum death benefit of four times final average pensionable pay plus any PRPs.

Plus

A dependant's pension of one half of the pension the member would have received had he/she retired due to incapacity at the date of death. Pensions for up to two children may also be payable.

Full details of the provisions of the Scheme can be found in the Pension Trust and Rules.

APPENDIX G: Summary of the main provisions of the Scheme



APPENDIX H: Dispute resolution process

Introduction

Before a formal complaint is considered, members should contact RPMI to see if the matter can be resolved informally. However, if this is not possible, there is a formal procedure to settle any disagreements fairly.

Who is covered by the procedure?

The procedure is open to the people listed below who in the six months before making a complaint were either:

- members of the Scheme;
- preserved pensioners with the Scheme;
- pensioners or other beneficiaries from the Scheme;
- widows, widowers or surviving dependants of deceased members; or
- prospective members (those who may join the Scheme in the future).

How does the procedure work?

The complaint must be in writing and sent to:

Head of Rail Administration

RPMI

Stooperdale Offices

Brinkburn Road

Darlington

DL3 6EH

All applications under the procedure must include:

- full name, address, date of birth and National Insurance number of the member;
- if the application is lodged by the member's spouse or surviving dependant, that person's full name, address and date of birth and the relationship with the Scheme member;
- the full name and address of any representative acting for the applicant and whether or not replies should be addressed to the representative;
- the facts of the case in sufficient detail to show why the applicant has a disagreement; and
- a signature by, or on behalf of, the applicant.

If the application does not contain all these details it may result in a delay in the complaint being considered. Within two months of receiving the application, the Head of Rail Administration will write to the applicant with his decision. However, if a decision is not possible within two months, he will send an interim reply giving the reasons for the delay and the expected date of his decision. The decision will be binding unless the applicant appeals. This decision will include a statement that The Pensions Advisory Service ('TPAS') is available to assist members and beneficiaries in connection with any difficulty with the Scheme which remains unresolved and the address where TPAS can be contacted.

Appeal

If the applicant is not satisfied with the decision, he/she can appeal to the Pensions or Case Committee, as applicable, to reconsider the application. The appeal must be made within six months of the date of the original decision. Within two months of receiving the appeal, the Committee will write to the complainant with a final decision. However, if a final decision is not possible within the two months, an interim reply will be sent giving the reasons for the delay and an expected decision date.

The notice of the final decision will include:

- a statement that TPAS is available to assist members and beneficiaries in connection with any difficulties with the Scheme which have not been resolved with the Committee and the address where TPAS can be contacted; and
- a statement that the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to the Scheme and the address where the Pensions Ombudsman may be contacted.

**LODGE COMPLAINT
IN WRITING**



**DECISION WITHIN
2 MONTHS**



**APPEAL WITHIN 6 MONTHS
OF ORIGINAL DECISION**



**PENSIONS OR CASE
COMMITTEE FINAL DECISION**

APPENDIX I: Where to go for help

Trustee Company and Railpen Investments

Company Secretary
Railways Pension Trustee Company Limited
2nd Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

T: 020 7220 5000

E: enquiries@rpmi.co.uk

W: www.rpmi.co.uk

RPMI

Further information about the fund and individual entitlements can be obtained from:

Head of Rail Administration
RPMI
Stooperdale Offices
Brinkburn Road
Darlington
DL3 6EH

T: 0800 2 343434 (Customer Services Team)

E: csu@rpmi.co.uk

W: www.railwaypensions.co.uk

The Pensions Advisory Service ('TPAS')

TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

TPAS Headquarters
11 Belgrave Road
London
SW1V 1RB

T: 0845 601 2923

E: enquiries@pensionsadvisoryservice.org.uk

W: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

If TPAS cannot resolve a complaint or dispute, then the Pensions Ombudsman could be contacted at the following address:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

T: 020 7630 2200

E: enquiries@pensions-ombudsman.org.uk

W: www.pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

T: 0870 606 0707

E: customersupport@tpr.gov.uk

W: www.thepensionsregulator.gov.uk

Pension Tracing Service

Information about UK schemes (including a contact address) is provided to the Department for Work and Pensions ('DWP') Pension Tracing Service. This enables members to trace benefits from previous employers' schemes.

The DWP's Pension Tracing Service can be contacted at the following address:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA

T: 0845 600 2537

W: www.gov.uk

RPS Registration number: 10203279



APPENDIX J: Pooled Fund Accounts

Introduction to the pooled fund accounts

This appendix represents a consolidated summary of the Annual Report and non-statutory audited Accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2012.

The total valuation of the pooled assets as at 31 December 2012 was £18,078.58m (2011 – £16,966.04m). There are in addition £1,957.93m (2011 – £1,832.40m) of assets held directly by the railways pension schemes not included in the pooled fund arrangements, bringing total assets to £20,036.51m (2011 – £18,798.44m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee Company has put in place for the investment of schemes' and sections' assets and provide the railways pension schemes with a means to invest in a wide range of asset classes.

In July 2012, the Defensive Pooled Fund was introduced. This is a multi-asset pool with a dynamic asset allocation, depending on the perceived opportunities. It is intended to be relatively low volatility risk and targets a modest real return. The range of eligible assets includes primarily a variety of fixed income instruments and cash.

Also during the year, the first investments were made in the Passive Equity Pooled Fund. So far, this has only been used by one section but is available for consideration by any section when investment strategies are reviewed.

The Trustee Company also operates a pooled fund for the BRASS AVC arrangement, which invests through cross-holdings in the other pooled funds.

The table on page 51 summarises the investments of each of these pooled funds as at 31 December 2012. The notes on pages 57 to 78 analyse the total pooled assets of £18,078.58m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on pages 59 to 60, and the unit prices on page 58.

The economic exposure of pooled fund assets

The use of derivatives and pooled investment vehicles by pension schemes can make it difficult for a reader of pension scheme accounts to gain an insight into the economic exposures of schemes' investment portfolios and the related risks and rewards. Based on guidance prepared by the Pensions Research Accountants Group, the table on page 49 presents an alternative classification of the pooled fund assets, which is intended to complement the analysis given in the accounts, and give an understanding of the underlying economic exposure of the pooled funds.

The investments in the Liability Driven Investments ('LDI') Pooled Fund are in a series of sub-funds designed to match part of the pension liabilities of the sections investing in the pooled fund. The underlying investments are in cash and a series of swaps providing cashflows which provide the approximate liability matching return. These swaps operate on a partially funded or 'geared' basis. The level of this gearing varies by sub-fund, but the broad overall result is a gearing ratio of approximately three times for the fund as a whole. This means that each pound invested in the LDI Pooled Fund might be expected to achieve a gain or loss of roughly three times that of a pound invested directly in liability matching gilts. From the point of view of risk and return, the net asset value of £111.48m reported in the table right as at 31 December 2012 is therefore roughly equivalent to a direct investment of £334.44m in a comparable gilt or index-linked gilt portfolio.

Foreign exchange ('FX') contracts are used either to hedge overseas investments in the pooled funds, as an active investment decision designed to generate investment return in sterling or to settle investment transactions. In the table right, the net asset value of those contracts used to hedge investments held at the year end has been shown against the asset category they are designed to hedge; the net asset value of other FX contracts has been shown against cash.

Credit default swaps ('CDSs') are contracts whereby, in exchange for a stream of income, one party agrees to make payments to another in the event of the insolvency (or other suitably defined credit event) of the issuer of the 'reference security' that is the subject of the

contract. In this respect CDSs are somewhat similar to insurance arrangements, since they allow the buyer to reduce credit risk in exchange for an annual fee. The market value of a CDS is the fair value of the contract, which reflects the market's best estimate of the likelihood of the relevant future credit event occurring on the reference security. As part of the efficient management of bond portfolios, fund managers are allowed to enter into CDSs in order to reduce costs or generate additional return, and in view of this the Trustee considers that the accounting fair value of £0.21m is the best measure of the economic exposure of CDSs, as disclosed in the table (opposite).

Key pooled fund statistics as at 31 December 2012

Total assets in pooled funds

£18,078.58m

Assets held by the railways pension schemes not in the pooled fund

£1,957.93m

Total assets held by the railways pension schemes

£20,036.51m

APPENDIX J: Pooled Fund Accounts

The economic exposure of pooled fund assets as at 31 December 2012

	Segregated investments	Futures	Swaps	Options	Forwards	TBAs	CDS	Pooled investment vehicles	FX	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK equities	390.13	-	-	-	-	-	-	628.11	-	1,018.24
Overseas equities	2,768.27	236.06	-	0.18	-	-	-	1,634.22	22.37	4,661.10
Property	1,552.68	-	-	-	-	-	-	27.37	-	1,580.05
Private equity	-	-	-	-	-	-	-	1,803.05	-	1,803.05
Commodities	-	330.93	-	-	-	-	-	-	-	330.93
Hedge funds	-	-	-	-	-	-	-	1,971.12	18.56	1,989.68
Infrastructure	-	-	-	-	-	-	-	806.84	-	806.84
UK index linked securities	1.04	-	-	-	-	-	-	165.62	-	166.66
Overseas index linked securities	27.73	-	-	-	-	-	-	-	-	27.73
Liability driven investments	-	-	-	-	-	-	-	111.48	-	111.48
UK public sector bonds	369.77	0.56	-	-	-	-	-	-	-	370.33
UK non-public sector bonds	25.87	-	-	-	-	-	-	-	-	25.87
Overseas public sector bonds	1,348.65	60.99	-	0.01	6.77	107.17	-	-	-	1,523.59
Overseas non-public sector bonds	1,496.24	-	-	0.04	-	-	0.21	90.41	-	1,586.90
Cash	2,715.16	(626.74)	1.01	-	(6.71)	-	-	-	47.25	2,129.97
Other assets and liabilities	52.16	-	-	-	-	(106.00)	-	-	-	(53.84)
Total	10,747.70	1.80	1.01	0.23	0.06	1.17	0.21	7,238.22	88.18	18,078.58

APPENDIX J: Pooled Fund Accounts

Accounting policies

Investments

The principal bases of investment valuation adopted by the pooled funds for the investments within them are set out below:

- (i) Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- (ii) Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- (iii) Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee Company's estimate of accounting fair value based on advice from the investment managers.
- (iv) Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price, where there are no bid/offer spreads, as provided by the investment managers.
- (v) Properties are included at open market value as at the year-end date determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, DTZ. DTZ are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors.
- (vi) Exchange traded derivatives are stated at market values determined using market quoted prices. Over the counter ('OTC') derivatives are stated at the Trustee Company's estimate of accounting fair value based on advice from Markit, external valuers retained by the Trustee Company through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year-end date.
- (vii) Forward foreign exchange contracts are valued at the forward rate at the year-end date.
- (viii) All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.

- (ix) Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

Foreign currencies

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

Investment income

Dividend and interest income is included in the accounts on the following bases:

- (i) Dividends from quoted equities are accounted for when the security is declared ex-div.
- (ii) Interest is accrued on a daily basis.
- (iii) Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- (iv) Sub-underwriting, commission recapture and stocklending commission are accounted for on a receivable basis.
- (v) Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- (vi) Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the unit price and reported within the change in market value.
- (vii) Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

APPENDIX J: Pooled Fund Accounts

SECTION 1.3: Fund statement as at 31 December 2012

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits & cash instruments	Other assets	Other liabilities	Cross Holdings	Net assets attributable to unit holders
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	661.11	558.64	28.77	-	1,185.21	29.00	(2.60)	763.45	86.56	(52.35)	6,162.52	9,420.31
Global Equity	2,470.07	10.28	-	-	1,893.81	33.90	(10.70)	324.20	11.04	(15.94)	-	4,716.66
Private Equity	7.49	-	-	-	1,803.05	0.02	(0.01)	72.18	0.08	(0.66)	-	1,882.15
Property	-	-	-	1,552.68	18.47	-	-	64.35	18.58	(55.41)	-	1,598.67
Non Government Bond	-	1,393.04	-	-	-	25.31	(7.60)	163.51	18.44	(1.93)	-	1,590.77
Hedge Funds	-	-	-	-	1,067.82	18.88	(0.32)	111.18	39.08	(4.91)	-	1,231.73
Cash	-	-	-	-	-	-	-	984.18	0.51	(0.07)	-	984.62
Infrastructure	19.73	-	-	-	806.84	0.50	(0.28)	22.98	0.20	(0.13)	-	849.84
Government Bond	-	795.59	-	-	-	13.51	(6.71)	18.87	8.25	(1.42)	-	828.09
Defensive	-	-	-	-	-	-	-	20.16	0.06	(0.01)	659.88	680.09
Commodities	-	283.83	-	-	123.84	5.43	(5.67)	47.38	0.72	(0.45)	-	455.08
Cashflow Matching	-	199.15	-	-	-	-	-	101.52	2.56	(0.42)	-	302.81
Index Linked	-	-	-	-	165.62	-	-	0.13	-	(0.03)	-	165.72
LDI	-	-	-	-	111.48	-	-	0.45	-	(0.06)	-	111.87
BRASS	-	-	-	-	-	-	-	20.61	0.02	(0.14)	72.37	92.86
Passive Equity	-	-	-	-	62.08	-	-	0.01	-	(0.01)	-	62.08
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(6,894.77)	(6,894.77)
Total	3,158.40	3,240.53	28.77	1,552.68	7,238.22	126.55	(33.89)	2,715.16	186.10	(133.94)	-	18,078.58
%	17.47	17.92	0.16	8.59	40.04	0.70	(0.19)	15.02	1.03	(0.74)	-	100.00

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.

APPENDIX J: Pooled Fund Accounts

SECTION 1.3: Fund statement as at 31 December 2012

Analysis of Cross Holdings

	Global equity	Hedge funds	Property	Non Government Bond	Cash	Commodities	Government Bond	Index linked	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	2,226.16	1,085.01	1,128.44	600.70	711.44	410.77	-	-	6,162.52
Defensive	-	-	-	345.14	162.61	-	152.13	-	659.88
BRASS	24.80	9.19	10.54	12.26	-	2.90	8.45	4.23	72.37
Total	2,250.96	1,094.20	1,138.98	958.10	874.05	413.67	160.58	4.23	6,894.77

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.

APPENDIX J: Pooled Fund Accounts

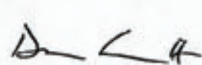
SECTION 1.3: Fund statement as at 31 December 2012

Movement in unit holders' funds

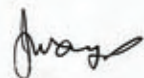
	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in Cross Holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	7,035.15	2,086.09	(358.59)	619.41	38.25	-	9,420.31
Global Equity	6,456.55	639.42	(3,061.06)	621.88	59.87	-	4,716.66
Private Equity	1,840.08	125.12	(178.03)	99.65	(4.67)	-	1,882.15
Property	1,555.21	0.09	(20.57)	(11.19)	75.13	-	1,598.67
Non Government Bond	1,071.55	407.24	(11.34)	77.71	45.61	-	1,590.77
Hedge Funds	1,129.40	135.76	(116.56)	91.91	(8.78)	-	1,231.73
Cash	189.09	1,047.57	(255.18)	-	3.14	-	984.62
Infrastructure	765.63	-	-	84.08	0.13	-	849.84
Government Bond	907.02	59.93	(192.01)	28.84	24.31	-	828.09
Defensive	-	691.99	(24.20)	12.30	-	-	680.09
Commodities	394.16	81.85	(1.51)	(18.25)	(1.17)	-	455.08
Cashflow Matching	510.26	177.00	(386.15)	(12.82)	14.52	-	302.81
Index Linked	187.99	1.17	(20.44)	(2.79)	(0.21)	-	165.72
LDI	149.64	-	(44.52)	(37.67)	44.42	-	111.87
BRASS	67.61	29.37	(9.73)	5.58	0.03	-	92.86
Passive Equity	-	60.75	-	1.34	(0.01)	-	62.08
Cross Holdings	(5,293.30)	-	-	-	-	(1,601.47)	(6,894.77)
Total	16,966.04	5,543.35	(4,679.89)	1,559.98	290.57	(1,601.47)	18,078.58

Approved on behalf of the Trustee Company on 8 May 2013

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.



Derek Scott Chairman



John Mayfield Director and Chairman, Audit Committee

APPENDIX J: Pooled Fund Accounts

SECTION 1.3: Fund statement as at 31 December 2011

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other assets	Other liabilities	Cross Holdings	Net assets attributable to unit holders
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Pooled Fund												
Growth	376.24	402.45	5.45	-	605.33	7.44	(17.60)	436.71	9.53	(22.53)	5,232.13	7,035.15
Global Equity	3,682.08	186.55	0.03	-	2,136.33	52.59	(44.10)	491.49	15.26	(63.68)	-	6,456.55
Private Equity	7.27	-	-	-	1,718.68	0.01	-	114.51	-	(0.39)	-	1,840.08
Property	-	-	-	1,367.79	19.95	-	-	185.39	15.47	(33.39)	-	1,555.21
Hedge Funds	-	-	-	-	998.81	0.01	(10.69)	104.22	39.24	(2.19)	-	1,129.40
Non Government Bond	-	927.11	-	-	17.94	18.14	(15.34)	111.06	13.28	(0.64)	-	1,071.55
Government Bond	-	855.80	6.58	-	-	14.95	(4.61)	25.78	10.21	(1.69)	-	907.02
Infrastructure	38.52	-	-	-	713.44	0.38	(0.18)	13.96	0.24	(0.73)	-	765.63
Cashflow Matching	-	399.80	-	-	-	-	-	107.63	3.18	(0.35)	-	510.26
Commodities	-	166.19	-	-	128.24	4.14	(9.37)	117.90	0.48	(13.42)	-	394.16
Cash	-	-	-	-	-	-	-	186.28	2.84	(0.03)	-	189.09
Index Linked	-	-	-	-	187.63	-	-	0.39	-	(0.03)	-	187.99
LDI	-	-	-	-	149.14	-	-	0.58	-	(0.08)	-	149.64
BRASS	-	-	-	-	-	-	-	6.30	0.15	(0.01)	61.17	67.61
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(5,293.30)	(5,293.30)
Total	4,104.11	2,937.90	12.06	1,367.79	6,675.49	97.66	(101.89)	1,902.20	109.88	(139.16)	-	16,966.04
%	24.19	17.32	0.07	8.06	39.34	0.58	(0.60)	11.21	0.65	(0.82)	-	100.00

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.

APPENDIX J: Pooled Fund Accounts

SECTION 1.3: Fund statement as at 31 December 2011 - Analysis of cross holdings

	Global equity	Hedge funds	Property	Non Government Bond	Cash	Commodities	Government Bond	Index linked	Total cross holdings
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	2,605.18	884.00	858.75	440.90	102.96	340.34	-	-	5,232.13
BRASS	26.51	7.38	6.41	7.96	-	2.64	5.97	4.30	61.17
Total	2,631.69	891.38	865.16	448.86	102.96	342.98	5.97	4.30	5,293.30

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.

APPENDIX J: Pooled Fund Accounts

SECTION 1.3: Fund statement as at 31 December 2011

Movement in unit holders' funds

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in cross holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	6,029.23	1,389.68	(178.20)	(226.38)	20.82	-	7,035.15
Global Equity	8,148.49	732.60	(1,754.09)	(747.76)	77.31	-	6,456.55
Private Equity	1,579.35	233.10	(197.30)	225.20	(0.27)	-	1,840.08
Property	1,452.82	0.30	(14.11)	48.61	67.59	-	1,555.21
Hedge Funds	1,142.54	11.30	(9.58)	(5.92)	(8.94)	-	1,129.40
Non Government Bond	1,066.83	43.46	(86.53)	7.39	40.40	-	1,071.55
Government Bond	759.74	99.14	(18.32)	40.65	25.81	-	907.02
Infrastructure	770.63	-	-	(6.77)	1.77	-	765.63
Cashflow Matching	632.69	262.30	(388.73)	(19.22)	23.22	-	510.26
Commodities	383.10	31.42	-	(18.45)	(1.91)	-	394.16
Cash	308.77	688.99	(811.28)	-	2.61	-	189.09
Index Linked	195.50	5.26	(57.64)	44.88	(0.01)	-	187.99
LDI	-	128.74	(48.15)	39.92	29.13	-	149.64
BRASS	47.72	27.01	(6.74)	(0.39)	0.01	-	67.61
Short Bonds	37.26	-	(37.87)	0.23	0.38	-	-
Cross Holdings	(5,278.73)	-	-	-	-	(14.57)	(5,293.30)
Total	17,275.94	3,653.30	(3,608.54)	(618.01)	277.92	(14.57)	16,966.04

The accounting policies on page 50 and the notes on pages 57 to 78 form part of these accounts.

APPENDIX J: Pooled Fund Accounts

Consolidated notes to the fund statement

1.1 Fund statement as at 31 December 2012

Assets	Note	2012 £m	2011 £m
Equities			
UK quoted		390.13	574.01
Overseas quoted		2,757.36	3,518.92
Overseas unquoted		10.91	11.18
		3,158.40	4,104.11
Fixed interest securities			
UK quoted – public sector		273.51	460.32
UK quoted – non public sector		122.13	90.49
Overseas quoted – public sector		1,348.65	1,358.27
Overseas quoted – non public sector		1,496.24	1,028.82
		3,240.53	2,937.90
Indexed linked securities			
UK quoted – public sector		-	6.58
UK quoted – non public sector		1.04	0.86
Overseas quoted – public sector		27.73	4.62
		28.77	12.06
UK Property		1,552.68	1,367.79
Pooled investment vehicles			
UK unquoted			
– property partnerships		18.47	19.95
UK unquoted			
– unitised insurance policies		2,110.35	2,046.44
UK unquoted			
– other partnerships		592.78	501.32
UK quoted			
– other managed funds		85.85	79.28
Overseas quoted			
– hedge funds		0.21	0.26
Overseas quoted			
– other managed funds		186.45	214.27

Assets	Note	2012 £m	2011 £m
Overseas unquoted			
– partnerships		2,340.70	2,316.81
Overseas unquoted			
– unit trusts		-	0.09
Overseas unquoted			
– hedge funds		1,321.08	1,191.87
Overseas unquoted			
– other managed funds		582.33	305.20
		7,238.22	6,675.49
Derivative contracts			
Forwards – OTC	1.5	0.27	0.89
Futures – exchange traded	1.5	9.19	20.96
TBA contracts – OTC	1.5	1.33	1.33
Swaps – OTC	1.5	2.43	5.26
Swaps – exchange traded	1.5	0.77	1.67
Options – OTC	1.5	0.28	0.10
Options – exchange traded	1.5	0.01	-
FX contracts – OTC	1.5	112.27	67.45
		126.55	97.66
Cash deposits and cash instruments	1.6	2,715.16	1,902.20
Other assets			
Other investment assets	1.7	156.42	100.30
Current assets	1.9	8.93	9.58
		165.35	109.88
Total assets		18,225.66	17,207.09

Liabilities	Note	2012 £m	2011 £m
Derivative contracts			
Forwards – OTC	1.5	(0.21)	(0.88)
Futures – exchange traded	1.5	(7.39)	(16.69)
TBA contracts – OTC	1.5	(0.16)	-
Swaps – OTC	1.5	(1.98)	(12.21)
Options – OTC	1.5	(0.06)	(0.01)
FX contracts – OTC	1.5	(24.09)	(72.10)
		(33.89)	(101.89)
Other liabilities			
Other investment liabilities	1.8	(61.54)	(80.54)
Current liabilities	1.10	(51.65)	(58.62)
		(113.19)	(139.16)
Total liabilities		(147.08)	(241.05)
Net assets attributable to unit holders		18,078.58	16,966.04

APPENDIX J: Pooled Fund Accounts

1.2 Pooled fund unit prices as at 31 December

	2012 £/unit	2011 £/unit
BRASS Pooled Fund (Cautious)	12.37	11.68
BRASS Pooled Fund (Growth)	12.37	11.39
Cash Pooled Fund	10.13	10.08
Commodities Pooled Fund	14.76	15.40
Global Equity Pooled Fund	52.90	46.50
Government Bond Pooled Fund	11.43	10.77
Growth Pooled Fund	11.62	10.72
Hedge Funds Pooled Fund	13.63	12.69
Index Linked Pooled Fund	53.19	54.07
Infrastructure Pooled Fund	8.02	7.23
Non Government Bond Pooled Fund	12.00	10.86
Property Pooled Fund	59.76	57.37
Defensive Pooled Fund (from July 2012)	10.21	-
Passive Equity Pooled Fund (from October 2012)	10.14	-
Cashflow Matching Pooled Fund		
Cashflow Matching 2011 Pooled Fund (until March 2012)	-	10.08
Cashflow Matching 2012 Pooled Fund	10.21	10.17
Cashflow Matching 2013 Pooled Fund	10.40	10.34
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	292.42	339.51
Direct Investment Pooled Fund 1997	156.01	156.54
Direct Investment Pooled Fund 1998	12.97	7.75
Direct Investment Pooled Fund 1999	11.73	10.85
Direct Investment Pooled Fund 2000	16.20	17.61
Private Equity Pooled Fund 2001	22.99	24.38
Private Equity Pooled Fund 2004	23.53	22.38
Private Equity Pooled Fund 2005	20.74	18.66
Private Equity Pooled Fund 2007	12.65	11.87
Private Equity Pooled Fund 2009	13.73	13.15
Private Equity Pooled Fund 2011	9.62	9.84

	2012 £/unit	2011 £/unit
Liability Driven Investment Pooled Fund		
LDI Nominal 2025 Pooled Fund	21.04	16.50
LDI Nominal 2030 Pooled Fund	20.98	18.08
LDI Nominal 2035 Pooled Fund	20.43	18.76
LDI Nominal 2040 Pooled Fund	20.00	18.93
LDI Nominal 2045 Pooled Fund	18.89	18.34
LDI Nominal 2050 Pooled Fund	17.98	17.68
LDI Nominal 2055 Pooled Fund	17.33	17.11
LDI Nominal 2060 Pooled Fund	17.21	16.63
LDI RPI 2015 Pooled Fund	11.19	10.17
LDI RPI 2020 Pooled Fund	15.74	13.55
LDI RPI 2025 Pooled Fund	19.02	16.27
LDI RPI 2030 Pooled Fund	18.99	17.73
LDI RPI 2035 Pooled Fund	18.45	18.22
LDI RPI 2040 Pooled Fund	17.46	18.24
LDI RPI 2045 Pooled Fund	16.64	18.07
LDI RPI 2050 Pooled Fund	16.14	17.37
LDI RPI 2055 Pooled Fund	15.74	16.92
LDI RPI 2060 Pooled Fund	15.46	16.55

APPENDIX J: Pooled Fund Accounts

1.3 Value of the Pooled Funds

	2012 £m	2011 £m
Growth Pooled Fund	9,420.31	7,035.15
Global Equity Pooled Fund	4,716.66	6,456.55
Private Equity Pooled Fund*	1,882.15	1,840.08
Property Pooled Fund	1,598.67	1,555.21
Non Government Bond Pooled Fund	1,590.77	1,071.55
Hedge Funds Pooled Fund	1,231.73	1,129.40
Cash Pooled Fund	984.62	189.09
Infrastructure Pooled Fund	849.84	765.63
Government Bond Pooled Fund	828.09	907.02
Defensive Pooled Fund	680.09	-
Commodities Pooled Fund	455.08	394.16
Cashflow Matching Pooled Fund*	302.81	510.26
Index Linked Pooled Fund	165.72	187.99
Liability Driven Investment Pooled Fund*	111.87	149.64
Passive Equity Pooled Fund	62.08	-
BRASS Pooled Fund (Growth)	53.71	39.92
BRASS Pooled Fund (Cautious)	39.15	27.69
	24,973.35	22,259.34
Cross holdings		
Global Equity Pooled Fund	(2,250.96)	(2,631.69)
Hedge Funds Pooled Fund	(1,094.20)	(891.38)
Property Pooled Fund	(1,138.98)	(865.16)
Non Government Bond Pooled Fund	(958.10)	(448.86)
Cash Pooled Fund	(874.05)	(102.96)
Commodities Pooled Fund	(413.67)	(342.98)
Government Bond Pooled Fund	(160.58)	(5.97)
Index Linked Pooled Fund	(4.23)	(4.30)
Net assets attributable to unit holders	18,078.58	16,966.04

* See breakdown into pooled fund segments right and over the page.

	2012 £m	2011 £m
Cashflow Matching Pooled Fund		
Cashflow Matching 2011 Pooled Fund	-	97.45
Cashflow Matching 2012 Pooled Fund	98.99	365.06
Cashflow Matching 2013 Pooled Fund	203.82	47.75
	302.81	510.26
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	0.01	0.01
Direct Investment Pooled Fund 1997	0.18	0.83
Direct Investment Pooled Fund 1998	8.13	6.07
Direct Investment Pooled Fund 1999	0.64	2.90
Direct Investment Pooled Fund 2000	36.78	52.74
Private Equity Pooled Fund 2001	218.09	294.80
Private Equity Pooled Fund 2004	101.55	112.92
Private Equity Pooled Fund 2005	335.05	301.06
Private Equity Pooled Fund 2007	987.13	962.86
Private Equity Pooled Fund 2009	132.55	94.20
Private Equity Pooled Fund 2011	62.04	11.69
	1,882.15	1,840.08

APPENDIX J: Pooled Fund Accounts

	2012 £m	2011 £m
Liability Driven Investment Pooled Fund		
LDI Nominal 2025 Pooled Fund	0.79	1.02
LDI Nominal 2030 Pooled Fund	4.68	6.55
LDI Nominal 2035 Pooled Fund	7.01	10.06
LDI Nominal 2040 Pooled Fund	14.31	20.10
LDI Nominal 2045 Pooled Fund	11.31	15.18
LDI Nominal 2050 Pooled Fund	10.63	13.81
LDI Nominal 2055 Pooled Fund	8.10	10.37
LDI Nominal 2060 Pooled Fund	13.91	16.94
LDI RPI 2015 Pooled Fund	1.83	2.19
LDI RPI 2020 Pooled Fund	6.41	7.35
LDI RPI 2025 Pooled Fund	9.69	13.19
LDI RPI 2030 Pooled Fund	9.44	13.67
LDI RPI 2035 Pooled Fund	7.60	10.68
LDI RPI 2040 Pooled Fund	1.86	2.66
LDI RPI 2045 Pooled Fund	1.17	1.66
LDI RPI 2050 Pooled Fund	0.97	1.30
LDI RPI 2055 Pooled Fund	0.78	1.06
LDI RPI 2060 Pooled Fund	1.38	1.85
	111.87	149.64

1.4 Investment income

	2012 £m	2011 £m
Dividends from equities	104.86	122.32
Income from fixed interest securities	116.62	117.96
Income from index linked securities	0.67	0.38
Income from UK property	87.14	77.59
Interest from cash deposits	11.27	8.99
Income from pooled investment vehicles	45.22	29.69
Other income	3.14	4.37
	368.92	361.30
Irrecoverable withholding tax	(2.90)	(5.39)
Total income	366.02	355.91
Administration, custody and other expenses	(17.07)	(19.54)
Investment management fees – base	(35.51)	(37.51)
Investment management fees – performance	(11.65)	(8.88)
RPMI fees	(13.49)	(11.29)
Tax	(0.01)	(0.02)
	(77.73)	(77.24)
Minority interest	2.28	(0.75)
Reinvested income (accrued in unit price)	290.57	277.92

APPENDIX J: Pooled Fund Accounts

1.5 Derivative contracts

TBA contracts: TBA ("To be announced") contracts are forward contracts for delivery on a future date of mortgage-backed securities issued by US government-sponsored entities. In this respect they are similar to futures, but TBAs are over-the-counter arrangements, and no margin payments are required on unsettled contracts. The details of unsettled TBA contracts at the year-end date are as follows:

Type of TBA	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
FNMA mortgage backed	47.56	1.31	(0.04)
GNMA mortgage backed	25.46	0.01	(0.08)
FHLMC mortgage backed	34.15	0.01	(0.04)
	1.33	(0.16)	

Futures: Future contracts are standardised, transferable, exchange traded contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open futures contracts at the year end are as follows:

Type of future	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
US S&P 500 index	87.44	0.42	-
Commodities	330.93	5.43	(5.67)
Korean Kospi index	7.88	0.22	-
Eurostoxx 50 index	78.39	0.09	-
Swiss market index ('SMI')	26.59	-	(0.23)
Other equity indices	36.50	0.17	(0.03)
Japanese Topix	2.26	0.19	-
Eurodollar	69.71	0.55	-
Australian government bonds	0.68	-	(0.01)
UK government bonds	0.56	0.04	-
Canadian government bonds	49.14	-	(0.07)
Japanese government bonds	35.62	0.31	-
German government bonds	14.52	0.45	(0.34)
US government bonds	(108.68)	1.32	(1.04)
	631.54	9.19	(7.39)

Included within net assets is £99.19m cash, £166.41m US Treasury bills and £117.76m US Treasury notes in respect of initial and variation margins arising on open futures contracts at the year end. The duration of futures is between one and 18 months.

Collateral deposited by counterparties with the Trustee Company in respect of futures contracts at the year-end date amounted to £31.73m cash. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Swaps: Swap contracts are arrangements in which the parties agree to exchange one stream of cashflows for another. The details of swap contracts in place at the year-end date are as follows:

Type of swap	Duration (years)	Nominal amount £m	Asset value at year end £m	Liability value at year end £m
Exchange traded				
Credit default swaps	0 to 5	7.78	0.02	-
Interest rate swaps	0 to 5	25.82	0.65	-
Interest rate swaps	5 to 10	4.39	0.10	-
			0.77	-
OTC				
Credit default swaps	0 to 5	58.48	0.83	(0.77)
Credit default swaps	5 to 10	3.71	0.45	(0.10)
Credit default swaps	35 to 40	(5.86)	-	(0.22)
Interest rate swaps	0 to 5	(75.82)	-	(0.01)
Interest rate swaps	5 to 10	(13.39)	1.14	(0.88)
Interest rate swaps	10 to 15	1.65	0.01	-
			2.43	(1.98)

Under the terms of swaps, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above swap contracts, the Trustee Company had deposited £0.91m of US Treasury bills and £0.58m of cash collateral at the year end. These amounts are included in the net assets of the pooled funds at the year end.

Collateral deposited by counterparties with the Trustee Company in respect of swap contracts at the year-end date amounted to £5.13m cash, £0.20m US Treasury bonds and £1.48m US Treasury notes. Contingent collateral received in this way is not reported within the pooled funds' net assets.

APPENDIX J: Pooled Fund Accounts

1.5 Derivative contracts

Forwards: Forward contracts are non-standardised OTC contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open forward contracts at the year-end date are as follows:

Type of forward	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
Spanish government bonds	4.17	0.18	(0.13)
Italian government bonds	2.60	0.09	(0.08)
	6.77	0.27	(0.21)

Under the terms of forward contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above forward contracts, the Trustee Company had neither deposited nor received collateral at the year end.

Options: Options are contracts which confer to the purchaser the right, but not the obligation, to buy ('call' options) or sell ('put' options) a security, currency, commodity or derivative contract on a specified future date at the price specified in the contract. Options may be either over the counter or exchange traded and may be 'bought', which means they carry the right to buy or sell if exercised by the holder or 'sold', meaning they carry the obligation to buy or sell if exercised by the counterparty. The details of option contracts in place at the year-end date are as follows:

Type of option	Bought or Sold	Notional value £m	Asset value at year end £m	Liability value at year end £m
Exchange traded				
US Treasury note	Bought	3.88	0.01	-
			0.01	-
OTC				
S&P 500	Bought	27.31	0.08	-
S&P 500	Sold	36.23	0.14	(0.04)
Credit default swaps	Bought	36.68	0.06	-
Credit default swaps	Sold	(36.68)	-	(0.02)
			0.28	(0.06)

The above options expire between three months and one year of the year-end date.

Forward foreign exchange ('FX') contracts: The pooled funds had open FX contracts at the year end as follows:

Type of contract	Currency bought million	Currency sold million	Value at year end £m
Assets			
Sterling / Yen	468.39	60,949.82	34.52
Sterling / Australian dollar	130.73	202.63	1.74
Sterling / Canadian dollar	107.35	170.82	1.89
Sterling / Hong Kong dollar	66.39	821.27	1.19
Sterling / US dollar	5,131.04	8,228.17	68.68
Other			4.25
			112.27
Liabilities			
US dollar / South Korean won	153.24	168,320.00	(2.55)
Yen / Sterling	2,400.32	18.66	(1.58)
US dollar / Euro	873.26	672.77	(8.51)
Yen / US dollar	948.22	11.54	(0.35)
Sterling / Swiss franc	94.77	142.06	(0.79)
Sterling / Euro	716.16	887.11	(3.68)
USD / Swedish krone	17.48	117.35	(0.34)
Other			(6.29)
			(24.09)

Under the terms of FX contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above FX contracts, the Trustee Company had received £1.48m cash collateral at the year end. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Included within net assets is £0.25m cash, £0.68m UK Treasury bonds and £0.59m German Government bonds in respect of collateral arising on open FX contracts at the year end.

Most FX contracts will settle within three months of the year end, and the remainder by April 2014.

1.6 Cash deposits and cash instruments

Included within cash balances is £103.72m in respect of repo transactions (2011 – £102.96m). A repo is a contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price.

APPENDIX J: Pooled Fund Accounts

1.7 Other investment assets

	2012 £m	2011 £m
Asset in respect of investment transactions	102.38	46.51
Investment income accrued	41.46	42.82
Recoverable tax	2.20	1.53
Rent receivable	10.38	9.44
	156.42	100.30

1.8 Other investment liabilities

	2012 £m	2011 £m
Liability in respect of investment transactions	(61.33)	(80.11)
Tax payable	(0.21)	(0.43)
	(61.54)	(80.54)

1.9 Current assets

	2012 £m	2011 £m
Asset in respect of unit trades	0.27	2.90
Trade debtors	5.70	5.95
Tax	2.47	-
Other	0.49	0.73
	8.93	9.58

1.10 Current liabilities

	2012 £m	2011 £m
Accrued management fees and expenses	(16.30)	(22.37)
Property income received in advance	(20.72)	(18.46)
Trade creditors	(8.13)	(7.92)
Liability in respect of unit trades	(0.22)	(0.04)
Tax	(4.30)	(5.15)
Other	(1.98)	(4.68)
	(51.65)	(58.62)

1.11 Stocklending

The Trustee Company has given limited approval to custodians to lend stock in the market. A principal condition of this approval is that borrowers must meet the Trustee Company's collateral specifications

At 31 December 2012, the market valuation of stock that had been lent in the market was £450.38m (2011 - £494.64m).

Collateral held in respect of the stock on loan at 31 December 2012 had a total value of £462.55m (2011 - £506.67m).

APPENDIX J: Pooled Fund Accounts

1.12 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2011 £m	Units issued/ (redeemed) £m	Income £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31 December 2012 £m
Directly held assets							
Equities	4,104.11	-	-	2,778.44	(4,054.07)	329.92	3,158.40
Fixed interest securities	2,937.90	-	-	4,727.11	(4,456.23)	31.75	3,240.53
Index linked securities	12.06	-	-	44.52	(34.16)	6.35	28.77
Pooled investment vehicles	6,675.49	-	-	3,185.46	(3,072.56)	449.83	7,238.22
UK property	1,367.79	-	-	244.81	(47.39)	(12.53)	1,552.68
	15,097.35	-	-	10,980.34	(11,664.41)	805.32	15,218.60
Derivatives							
Forwards	0.01	-	-	9.28	(7.62)	(1.61)	0.06
Futures	4.27	-	-	146.45	(233.83)	84.91	1.80
TBA's	1.33	-	-	14.92	(10.93)	(4.15)	1.17
Swaps	(5.28)	-	-	238.92	(230.79)	(1.63)	1.22
Options	0.09	-	-	4.33	(4.25)	0.06	0.23
FX contracts	(4.65)	-	-	17,974.18	(18,134.98)	253.63	88.18
	(4.23)	-	-	18,388.08	(18,622.40)	331.21	92.66
Cross holdings	5,293.30	-	-	2,643.95	(1,481.64)	439.16	6,894.77
Other							
Cash and current assets	1,872.92	863.46	290.57	(32,012.37)	31,768.45	(15.71)	2,767.32
	22,259.34	863.46	290.57	-	-	1,559.98	24,973.35
Cross holdings	(5,293.30)						(6,894.77)
Net Assets	16,966.04						18,078.58

APPENDIX J: Pooled Fund Accounts

1.13 Investment managers during the year

The investment managers used by the pooled funds during the year together with their net assets under management at the year end were as follows:

	2012 £m	2011 £m
BlackRock Advisors (UK)	3,573.28	2,442.41
Orchard Street Investment Management	1,577.47	1,517.07
Wellington Management International	1,433.75	1,275.80
Legal and General Investment Management ('L&G')	997.48	966.68
Railpen Investments	827.60	612.91
Lazard Asset Management	644.67	673.48
Blackstone Alternative Asset Management	617.76	507.25
JP Morgan Asset Management	507.98	240.42
Grosvenor Capital Management	451.31	310.70
Pacific Investment Management Company ('PIMCO')	436.77	549.01
Rogge Global Partners	337.55	191.02
Neuberger Berman Europe	331.09	265.40
Credit Suisse (from January 2012)	320.48	-
Longview Partners	312.18	308.35
Edinburgh Partners	292.46	412.35
William Blair & Company	273.38	250.54
Unigestion	272.83	213.86
Morgan Stanley Investment Management	267.47	240.06
Alinda Capital Partners	225.18	228.20
Horsley Bridge Partners	256.57	228.06
Cinven	250.85	234.75
Harbour Vest Partners	243.15	252.77
Bridgewater Associates	222.81	216.38
Southeastern Asset Management	217.50	291.40
Goldman Sachs Asset Management ('GSAM')	216.98	249.51
The Rock Creek Group	197.40	205.47
Aberforth Partners	194.40	184.08
Standard Life Investments	193.17	190.26
River and Mercantile Asset Management	183.66	164.21
Taiyo Pacific Partners	166.62	163.93
Apax Partners	140.24	144.86
Pantheon Ventures	130.47	155.81
Arcus Infrastructure	127.52	105.47
New Finance Capital	123.84	128.24
Insight Investment	120.38	153.16
Carried forward	16,686.25	14,273.87

	2012 £m	2011 £m
Brought forward	16,686.25	14,273.87
Blakeney Management	110.29	97.64
Adams Street Partners	107.31	114.05
Marathon Asset Management	96.25	256.99
Newton Investment Management	75.10	71.81
Graham Capital	69.14	67.10
Innisfree	61.85	32.49
Warburg Pincus	59.83	55.98
Ardevora Asset Management (from March 2012)	55.16	-
Invesco Perpetual (from May 2012)	52.66	-
Indicus Advisors	50.74	43.29
Bain Capital	49.48	40.67
EQT Funds Management	48.46	32.72
CP2	48.33	96.87
Oaktree Capital Management	41.50	48.44
Aspect (from May 2012)	39.27	-
Archer Capital	38.63	40.05
Henderson	38.60	-
Headland Capital Partners	33.55	30.50
Edgbaston Investment Partners (from November 2012)	30.73	-
Sankaty Advisors	23.27	29.74
Scale Ventures	20.90	17.55
Balderton Capital	17.70	13.43
Columbia Capital	17.70	11.08
Hony Capital	17.21	15.33
Relational Investors	16.54	171.82
Khosla Ventures	15.33	10.62
Great Hill Partners	12.57	17.51
Sequoia Capital	12.18	7.49
Anacap Financial Partners	11.77	8.51
KPS Capital Partners	10.99	5.78
Westbridge Crossover	9.87	4.63
Institutional Venture Partners	9.27	6.82
Highland Capital Partners	9.18	5.87
Carried forward	17,997.61	15,628.65

APPENDIX J: Pooled Fund Accounts

	2012 £m	2011 £m
Brought forward	17,997.61	15,628.65
Domain Partners	8.71	5.54
Ares Management (from June 2012)	8.63	-
Accel Partners	8.48	3.47
Navis Capital Partners	7.60	3.59
Innova	7.19	4.00
Charlesbank Capital Partners	6.51	5.25
CI Capital Investors	5.98	5.11
Morningside Ventures	5.45	1.50
Capital Dynamics	4.77	6.03
Southern Cross Group	4.50	1.73
Bessemer Venture Partners	2.38	0.98
Abry Partners	2.13	0.64
Clearsight	2.03	0.84
Index Ventures (from March 2012)	1.86	-
Berkshire Partners	1.79	0.69
Andreessen Horowitz (from February 2012)	1.42	-
Governance for Owners Group ('GO')	1.05	5.40
Bridges Ventures	0.37	0.50
Peak Rock Capital (from December 2012)	0.12	-
Western Asset Management (until March 2012)	-	506.95
Brandes Investment Partners (until May 2012)	-	280.32
NewSmith Asset Management (until January 2012)	-	223.21
Fidelity Pensions Management (until August 2012)	-	212.89
Goodhart Partners (until May 2012)	-	65.08
Martin Currie (until October 2012)	-	3.61
TT International (until January 2012)	-	0.06
	18,078.58	16,966.04

1.14 Benchmarks and targets

The performance of the Global Equity Pooled Fund is measured against a composite benchmark which at the year end comprised:

	2012 %	2011 %
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	20.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	20.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	15.0
	100.0	100.0

A passive hedging strategy is employed whereby 50% of the overseas developed markets currency exposure in the pooled fund is hedged back to Sterling.

The target for the Global Equity Pooled Fund is to beat this benchmark by 0.5% over the long term.

The performance of each annual segment of the Cashflow Matching Pooled Fund is measured against a customised benchmark designed to reflect the specific maturity profiles of that segment.

The performance of the LDI Pooled Fund is measured against the liability profile of the sections investing in the pooled fund.

APPENDIX J: Pooled Fund Accounts

Pooled fund	Benchmark	Long-term target
Growth	Retail Price Index	Benchmark + 5% pa
Private Equity	MSCI All Countries World Index	Benchmark + 1% pa
Property	Investment Property Databank All Properties Index	Benchmark + 1% pa
Non Government Bond	Barclays Capital Global Aggregate Index – ex-Treasury ex-Government (hedged)	Benchmark + 0.75% pa
Hedge Funds	SONIA 3 month swap rate. The 3 month SONIA swap rate represents a sterling overnight index average rate for brokered unsecured overnight trades between banks.	Benchmark + 3.5% pa
Cash	7 Day Sterling London Inter-Bank Intra Day Interest Rate	Benchmark
Infrastructure	Retail Price Index	Benchmark + 4% pa
Government Bond	Citigroup World Government Bond Index – ex Japan (hedged)	Benchmark + 0.5% pa
Defensive	Retail Price Index	Benchmark + 4.0% pa
Commodities	Composite benchmark comprising: 75% DJ AIG Commodities Index 25% S&P GSCI Petroleum Index	Benchmark
Index Linked	FTSE UK gilts – Index Linked > 15 years Index	Benchmark
Passive Equity	FTSE All-World Index Developed Markets (hedged)	Benchmark

1.15 Performance

The return of each pooled fund as measured by WM Performance Services and RPMI is shown in the table below:

Pooled Fund	Actual 2012 (%)	Target 2012 (%)	Bench 2012 (%)	Actual last 5 years ¹ (%)	Target last 5 years ¹ (%)	Bench last 5 years ¹ (%)
Growth	8.4	8.1	3.1	6.2	9.0	4.0
Global Equity	14.1	14.8	14.3	(0.5)	0.4	(0.1)
Private Equity	5.1	12.7	11.7	5.2	1.5	0.5
Property	5.0	3.4	2.4	2.1	1.0	0.0
Non Government Bond	10.6	9.8	9.0	7.4	7.2	6.4
Hedge Funds	8.1	3.9	0.4	1.6	5.3	1.8
Cash	0.6	0.5	0.5	0.6	0.5	0.5
Infrastructure	11.2	7.1	3.1	(4.2)	7.2	3.2
Government Bond	6.4	6.4	5.9	5.6	5.7	5.1
Defensive ²	2.1	2.4	2.1	2.1	2.4	2.1
Commodities	(3.6)	(5.0)	(5.0)	11.3	8.4	8.4
Cashflow Matching 2012	0.7	0.6	0.6	1.0	0.9	0.9
Cashflow Matching 2013	0.8	0.9	0.9	1.6	1.6	1.6
Index Linked	(1.2)	(1.3)	(1.3)	12.3	11.9	11.9
LDI	(9.2)	n/a	n/a	n/a	n/a	n/a
BRASS (Growth)	8.5	n/a	n/a	n/a	n/a	n/a
BRASS (Cautious)	5.9	n/a	n/a	n/a	n/a	n/a
Passive Equity ³	1.8	1.8	1.8	1.8	1.8	1.8

¹ For pooled funds that have been in existence for less than five years, the figures given in the table are since the inception of the pooled fund.

² The Defensive Pooled Fund return is calculated from its inception in July 2012.

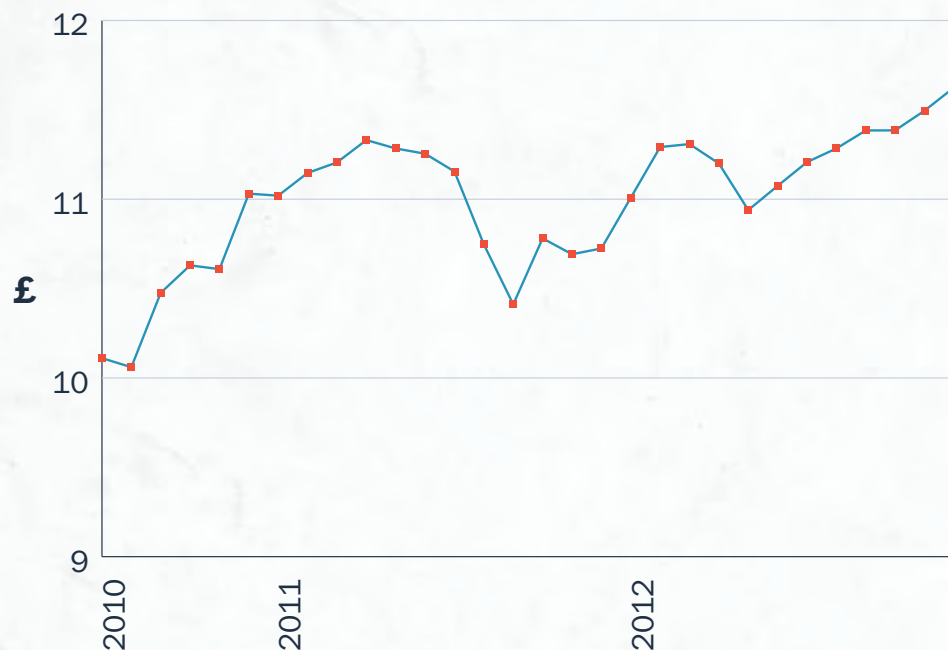
³ The Passive Equity Pooled Fund return is calculated from its inception in October 2012.

APPENDIX J: Pooled Fund Accounts

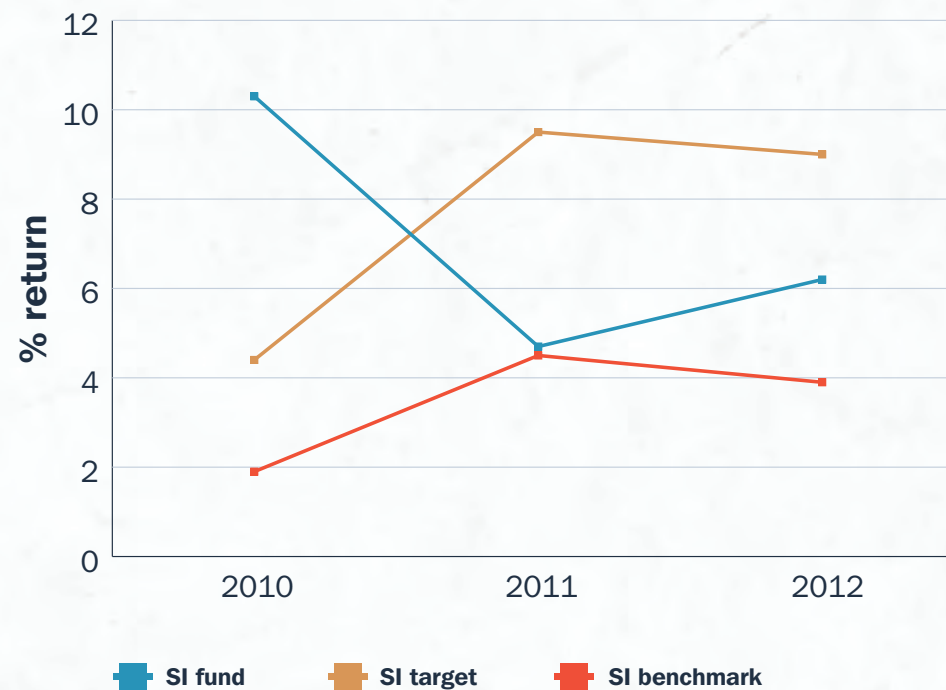
1.15 Performance (continued)

The graphs below illustrate the performance of each pooled fund and the movement in the unit price during the last five years, or since inception where the fund has been in existence for less than 5 years.

Growth Pooled Fund Unit Price

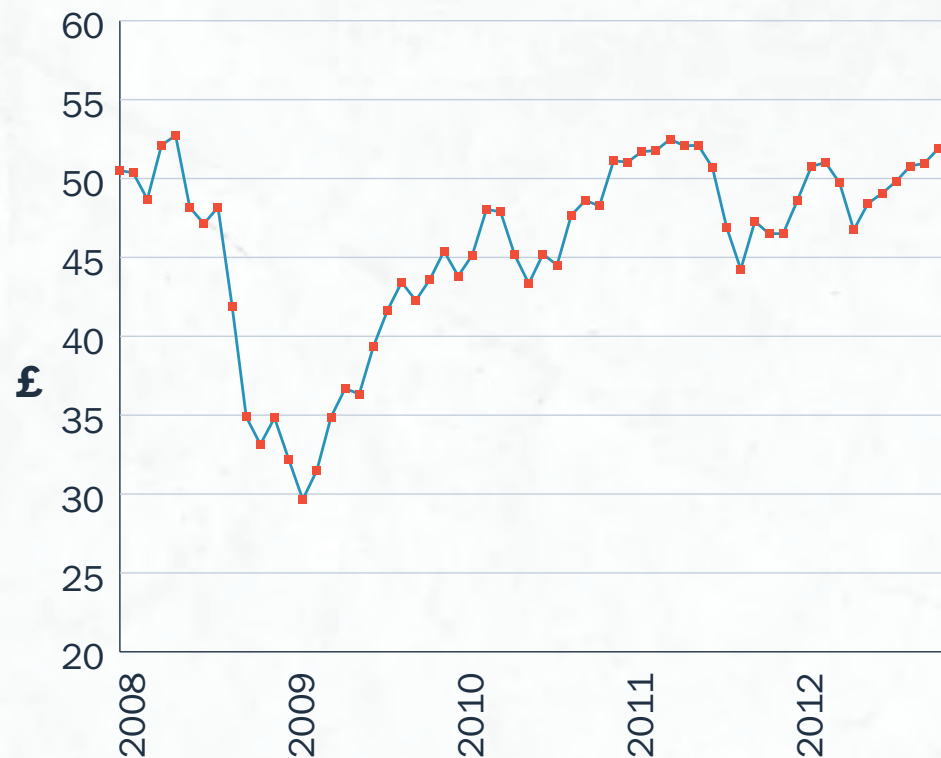


Growth Pooled Fund Performance



APPENDIX J: Pooled Fund Accounts

Global Equity Pooled Fund Unit Price

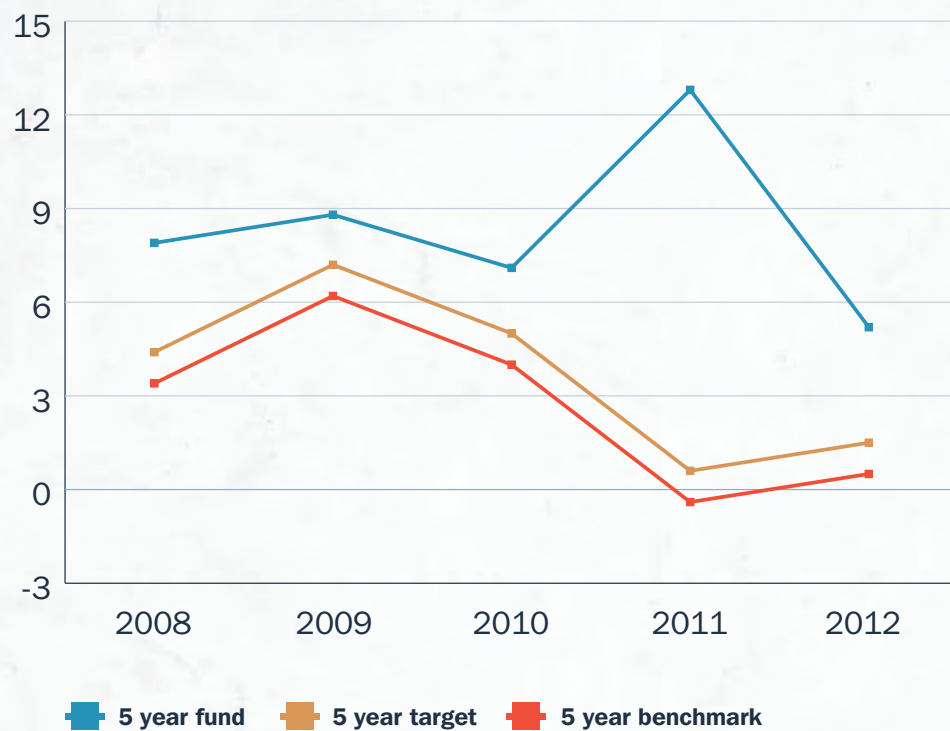


Global Equity Pooled Fund Performance



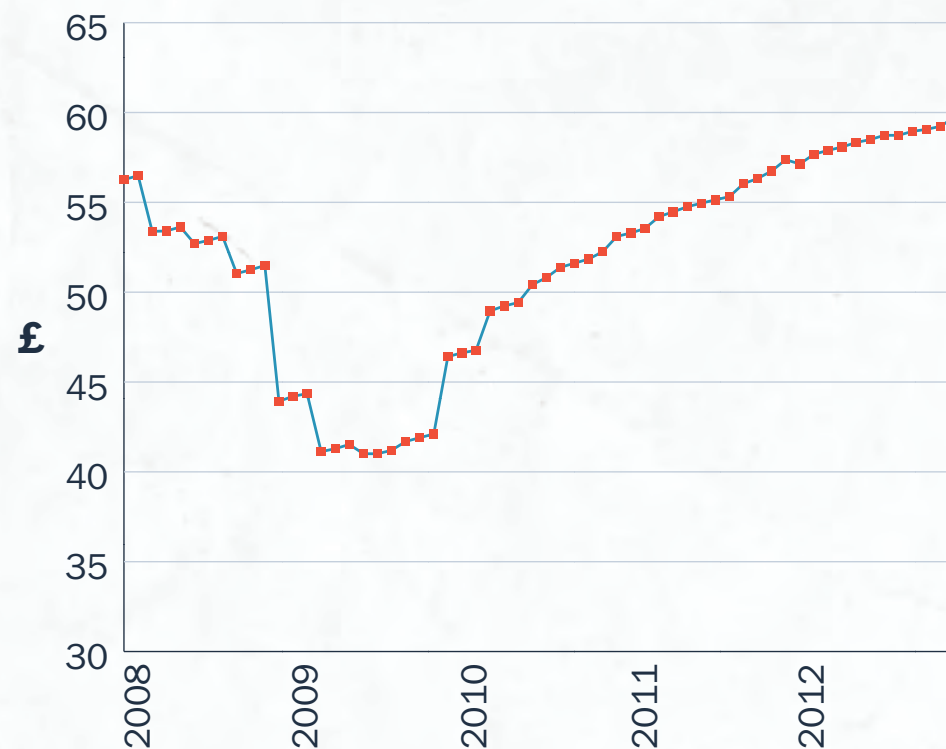
APPENDIX J: Pooled Fund Accounts

Private Equity Pooled Fund Performance



APPENDIX J: Pooled Fund Accounts

Property Pooled Fund Unit Price

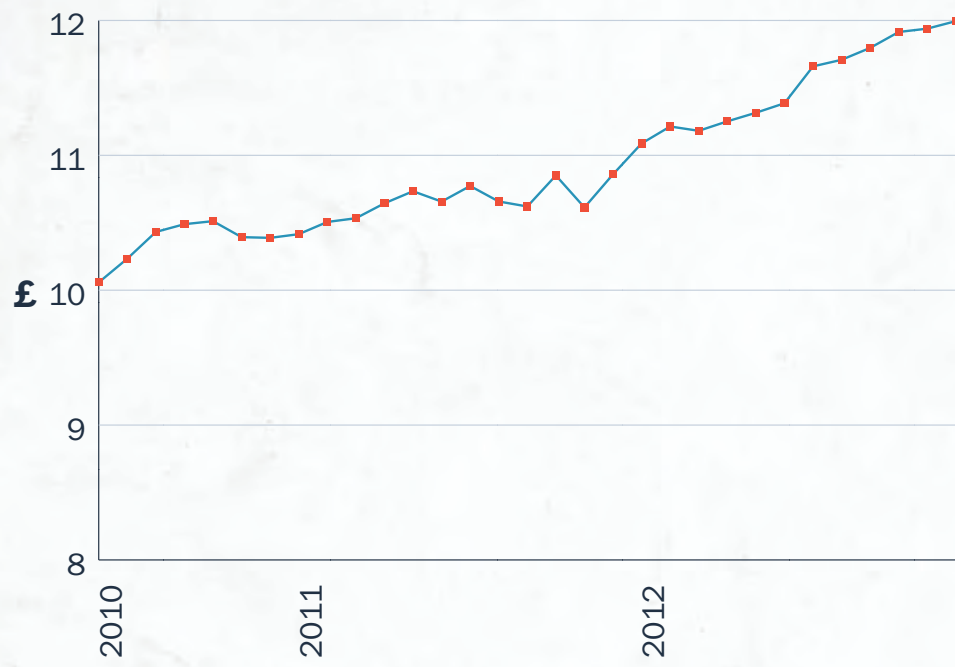


Property Pooled Fund Performance

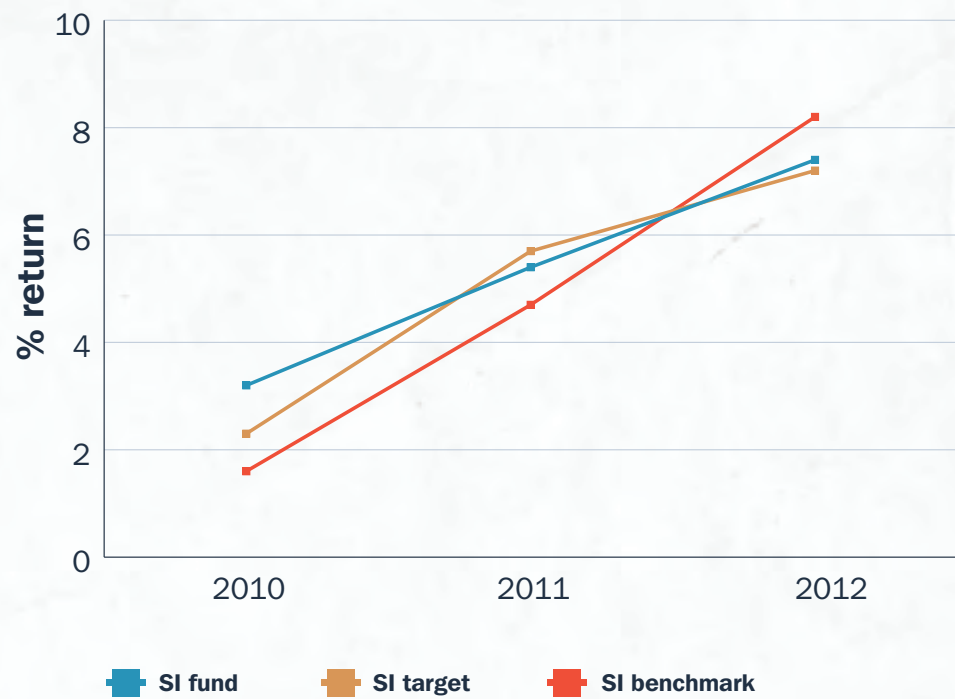


APPENDIX J: Pooled Fund Accounts

Non Government Bond Pooled Fund Unit Price

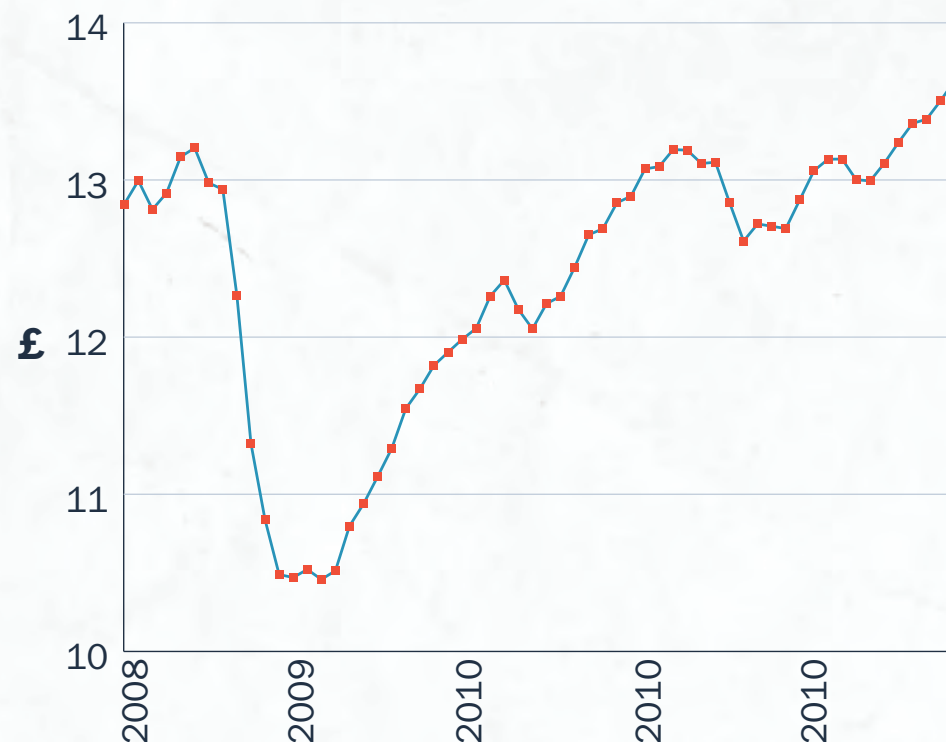


Non Government Bond Pooled Fund Performance

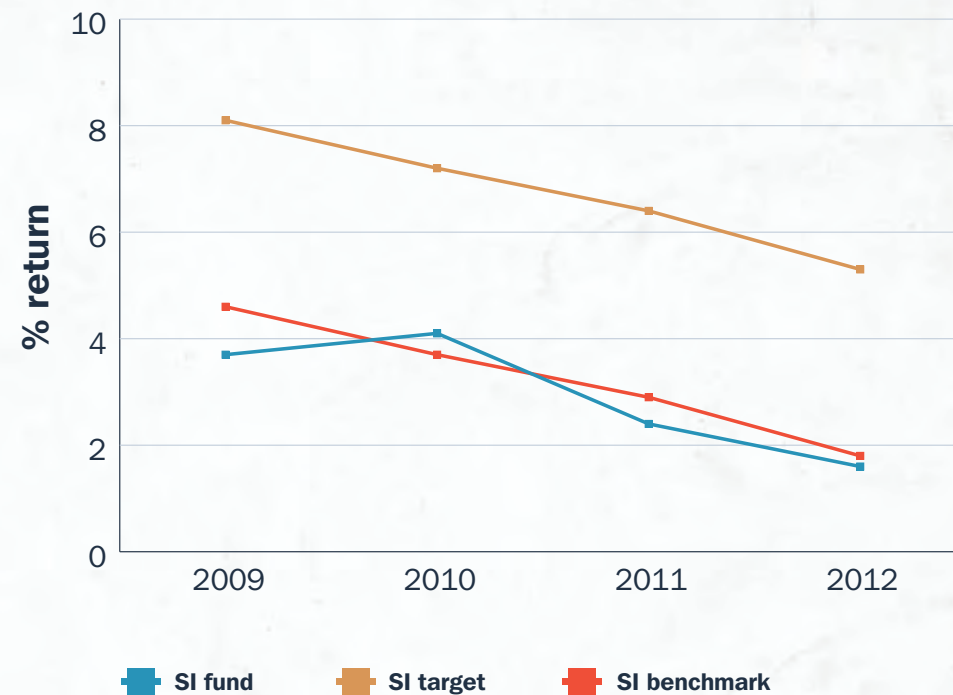


APPENDIX J: Pooled Fund Accounts

Hedge Funds Pooled Fund Unit Price

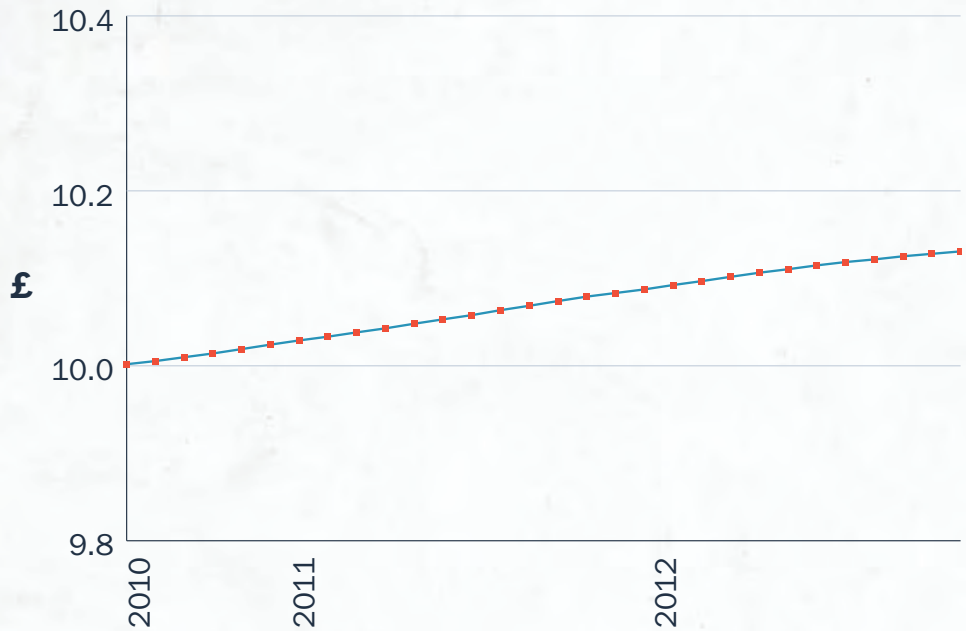


Hedge Funds Pooled Fund Performance

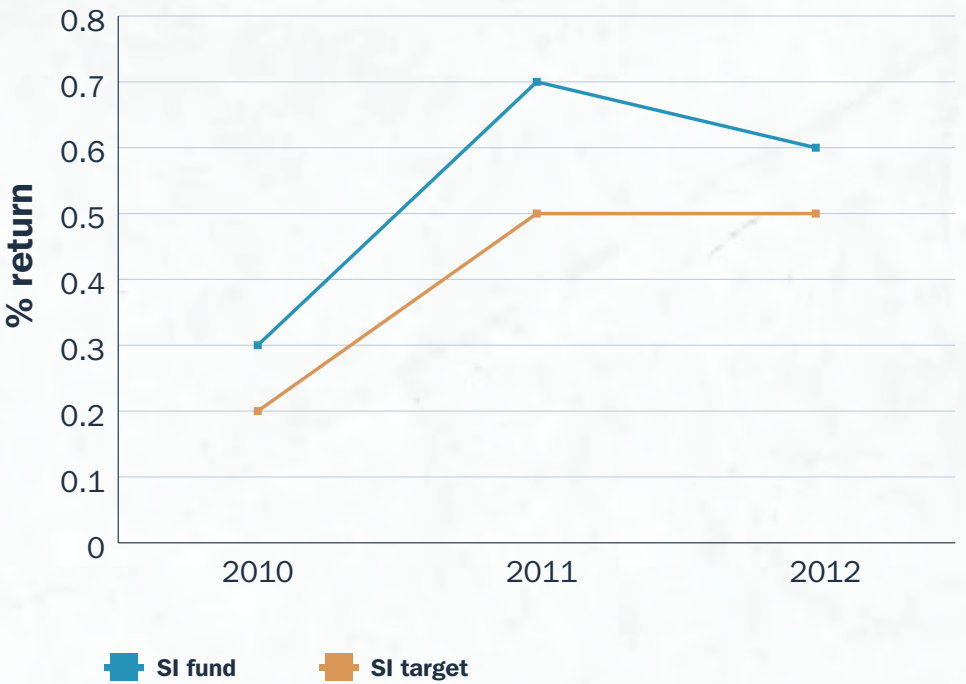


APPENDIX J: Pooled Fund Accounts

Cash Pooled Fund Unit Price

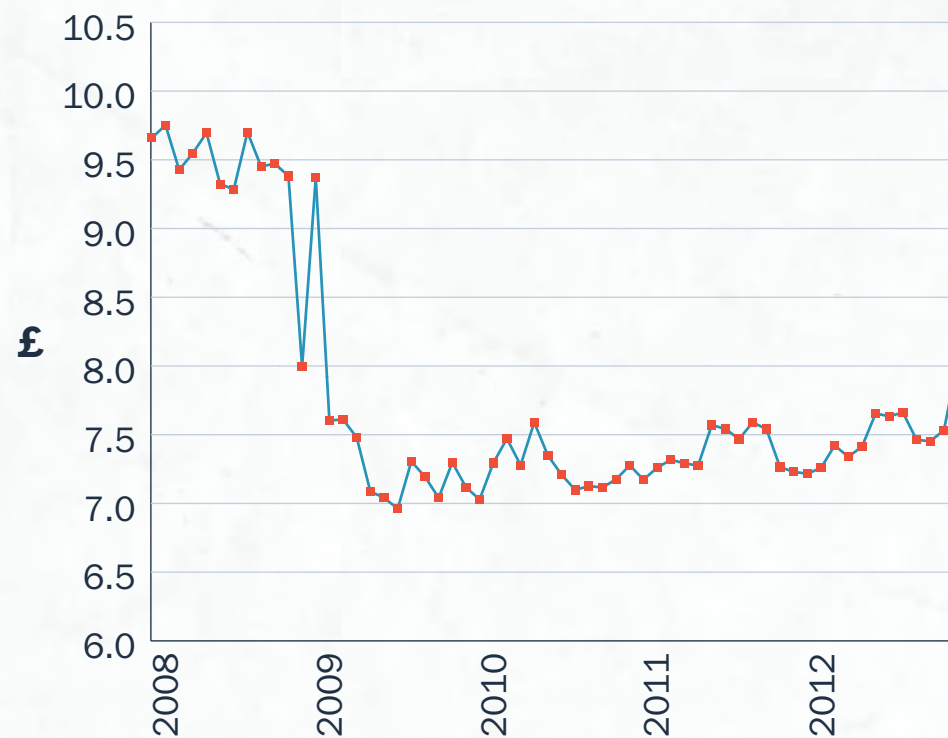


Cash Pooled Fund Performance

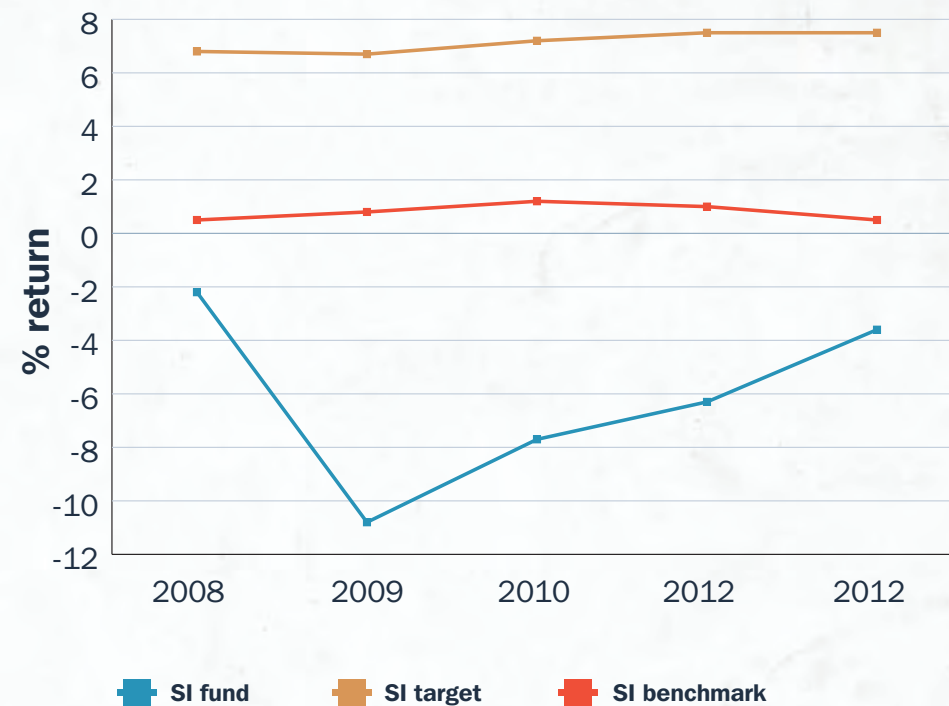


APPENDIX J: Pooled Fund Accounts

Infrastructure Pooled Fund Unit Price

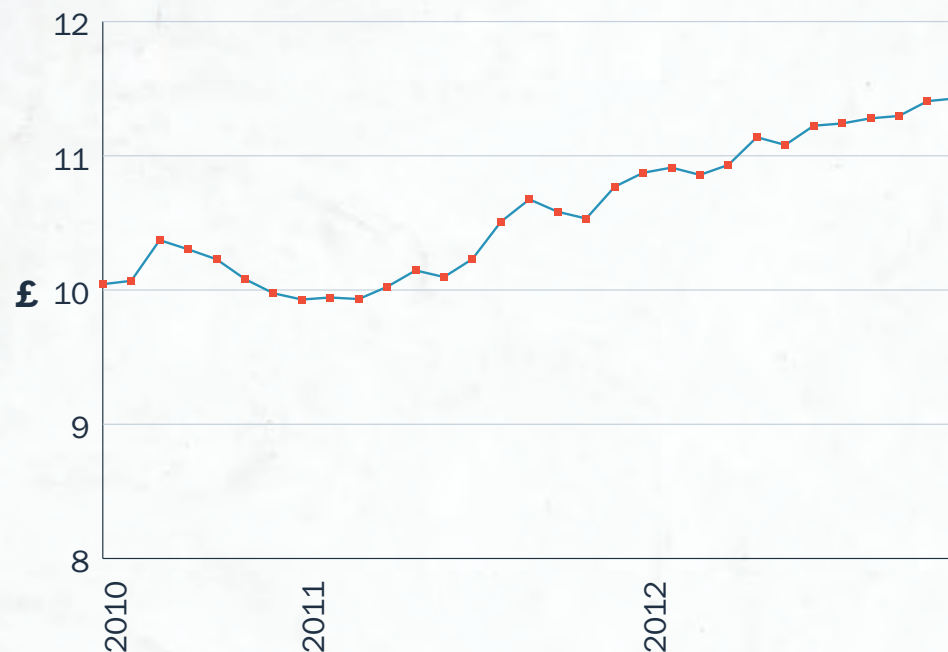


Infrastructure Pooled Fund Performance

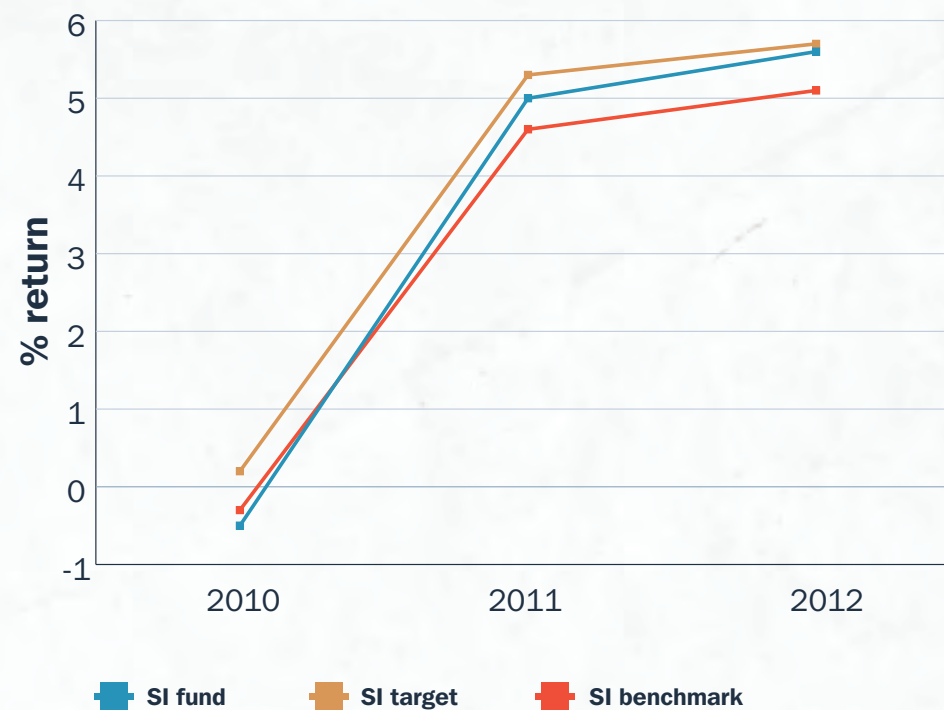


APPENDIX J: Pooled Fund Accounts

Government Bond Pooled Fund Unit Price

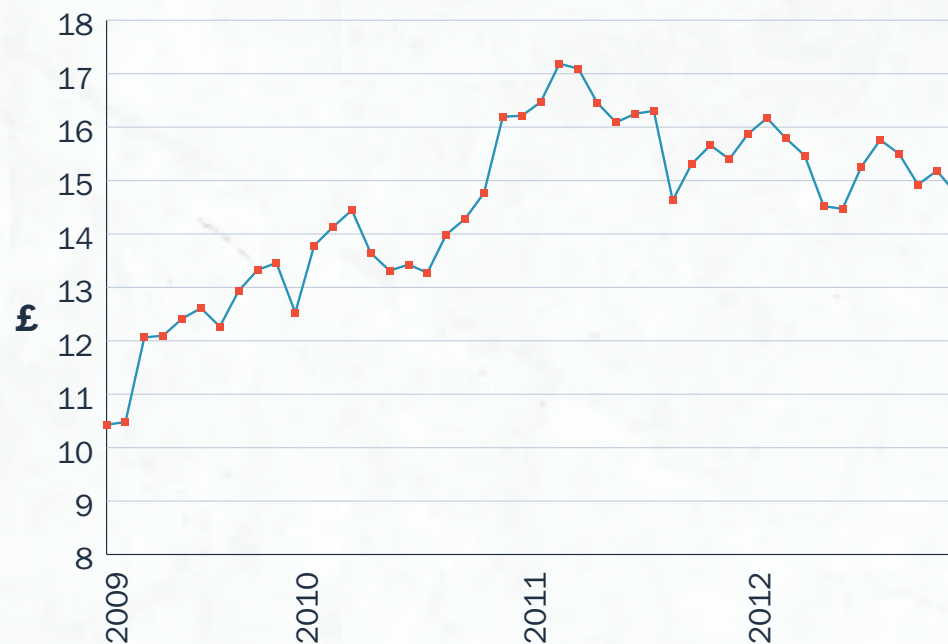


Government Bond Pooled Fund Performance

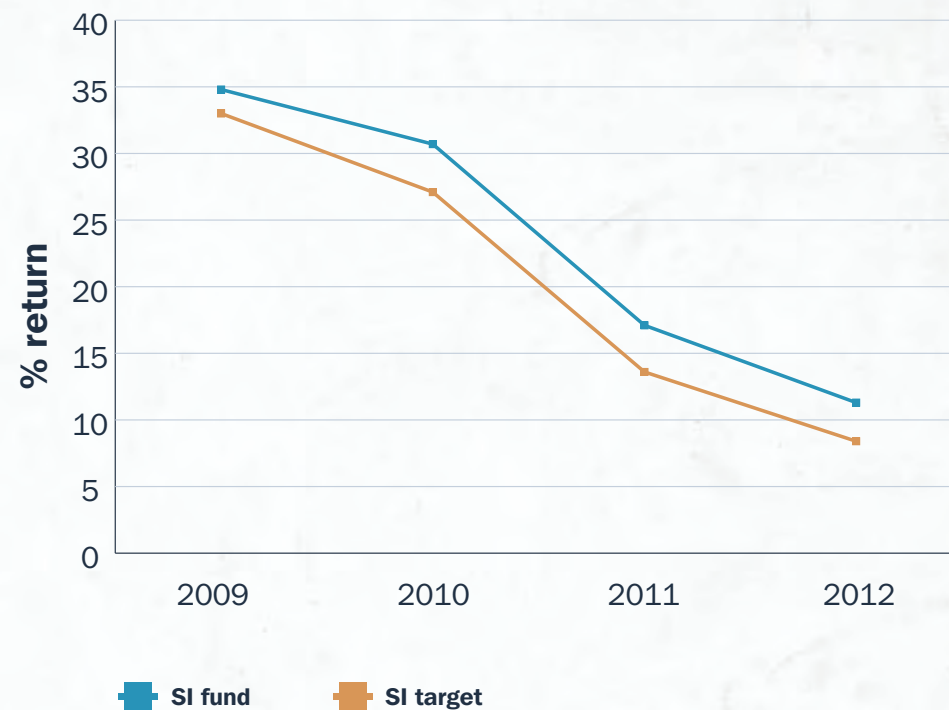


APPENDIX J: Pooled Fund Accounts

Commodities Pooled Fund Unit Price

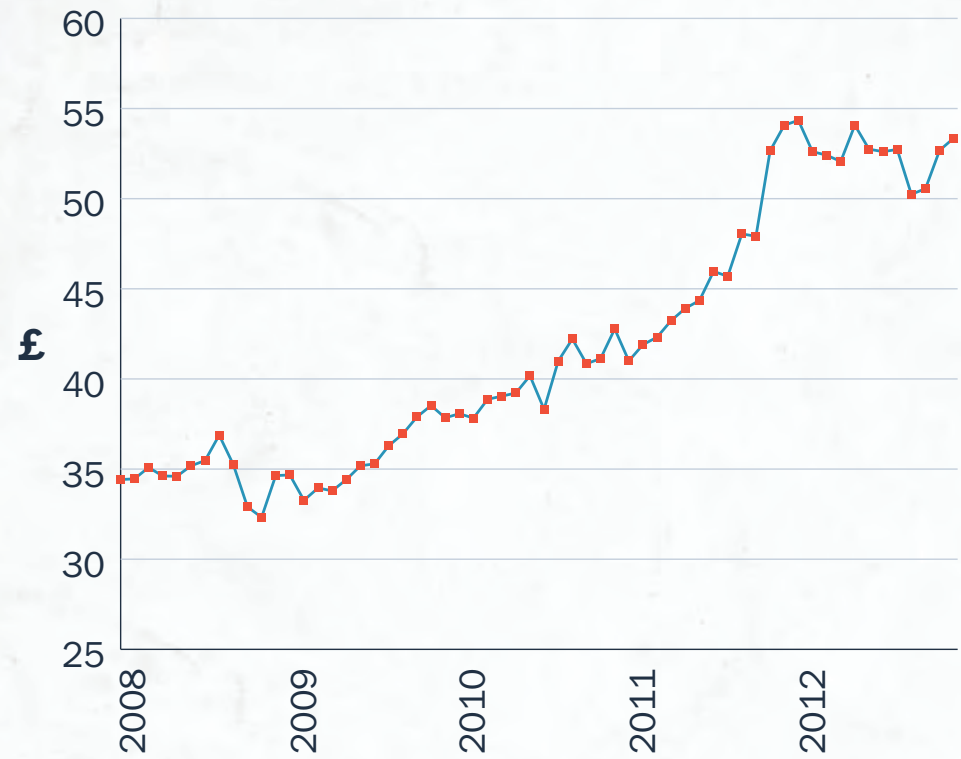


Commodities Pooled Fund Performance



APPENDIX J: Pooled Fund Accounts

Index Linked Pooled Fund Unit Price



Index Linked Pooled Fund Performance

