STEWARDSHIP REPORT 2022

RAILPEN

CONTENTS

FOREWORD

Both the Railways Pension Trustee Company Limited (the Trustee) and Railway Pension Investments Limited (Railpen) have long considered stewardship to be a core part of our fiduciary duties.

The Trustee, which delegates investment powers to Railpen, was one of the first UK occupational pension schemes to publish a corporate governance and voting policy, and to introduce voting for all UK equities, in 1992.

The Trustee is therefore supportive of the 2020 UK Stewardship Code – and other similar initiatives around the world. We were one of the first signatories to the original Code and, having been in the first wave of signatories, were delighted to retain our signatory status to the updated Code last year. We think that these initiatives are an invaluable mechanism to support and encourage investors to create long-term value for beneficiaries.

This report provides a response both from the Trustee and Railpen. Railpen is responsible for implementing the Trustee's mission to pay members' pensions securely, affordably and sustainably, which is echoed in Railpen's purpose to 'secure our members' future'. Both the Trustee and Railpen undertake responsibilities attributed to asset owners and asset managers, and we have prepared this report to reflect the breadth of our responsibilities.

2022 saw the first full year of implementation of the Trustee's updated Investment Beliefs[1]. These fundamentally guide and influence everything the Trustee and Railpen do, including the sustainable ownership activities. The updated Beliefs were an important driver of our work last year to: implement our Net Zero roadmap; deepen our focus on system-wide and thematic risk; and further consider opportunities for sustainable capital allocation.

Although we recognise there is much more to do, we were pleased to be recognised for our sustainable ownership and climate work in 2022 through winning the 2022 IPE Awards for Investment Innovation, as well as Carbon and Net Zero Strategy, and the 2022 European Pensions Award for European Pension Fund of the Year.

As our 2022 Stewardship Report goes to publication, the world remains very different to how it was just a few years ago. Several factors, including the ongoing Russian occupation of Ukraine, have led to significant cost of living challenges both in the UK and elsewhere. The complex and interconnected nature of these risks underline the importance of taking a holistic approach to investment stewardship, building from the investor's own culture and philosophy to effectively tackle environmental, social and governance (ESG) issues at both a company- and system-wide level.

As discussed in this report, Railpen has worked hard not only to support its employees during the current challenging circumstances, but to ensure the companies we invest in treat their workforces fairly and – in doing so – help us achieve the investment returns necessary to secure the futures of members of the railways pension schemes.

Christine Kernoghan
Chair of Trustees

John Chilman
CEO Railpen

[1] *Please see case study 2 in our 2021 Stewardship Report for further details regarding the updated beliefs and their relevance for our sustainable ownership work.*

How we have ensured this report is fair, balanced and understandable

This report has been prepared in alignment with the UK Stewardship Code 2020 and reviewed by a range of client-facing, member-facing and communications teams across the Railpen business. Senior stakeholders support and have signed off the full report. This process has given us confidence that our reporting is fair, accurate and balanced – as well as of interest and use to members and employers.

This report has also been assured by Railpen's in-house Internal Audit team, which is independent, objective and provides challenge and insights across the wider Railpen business, in conformance with the International Standards for the Professional Practice of Internal Auditing ('the Standards') and the Chartered Institute of Internal Audit's guidance, 'Effective Internal Audit in Financial Services'.

This use of 'third line of defence' internal assurance supplements the review of the broader report that has been undertaken by multiple internal teams.

Further details of the assurance process for this year's report can be found in Appendix 2.

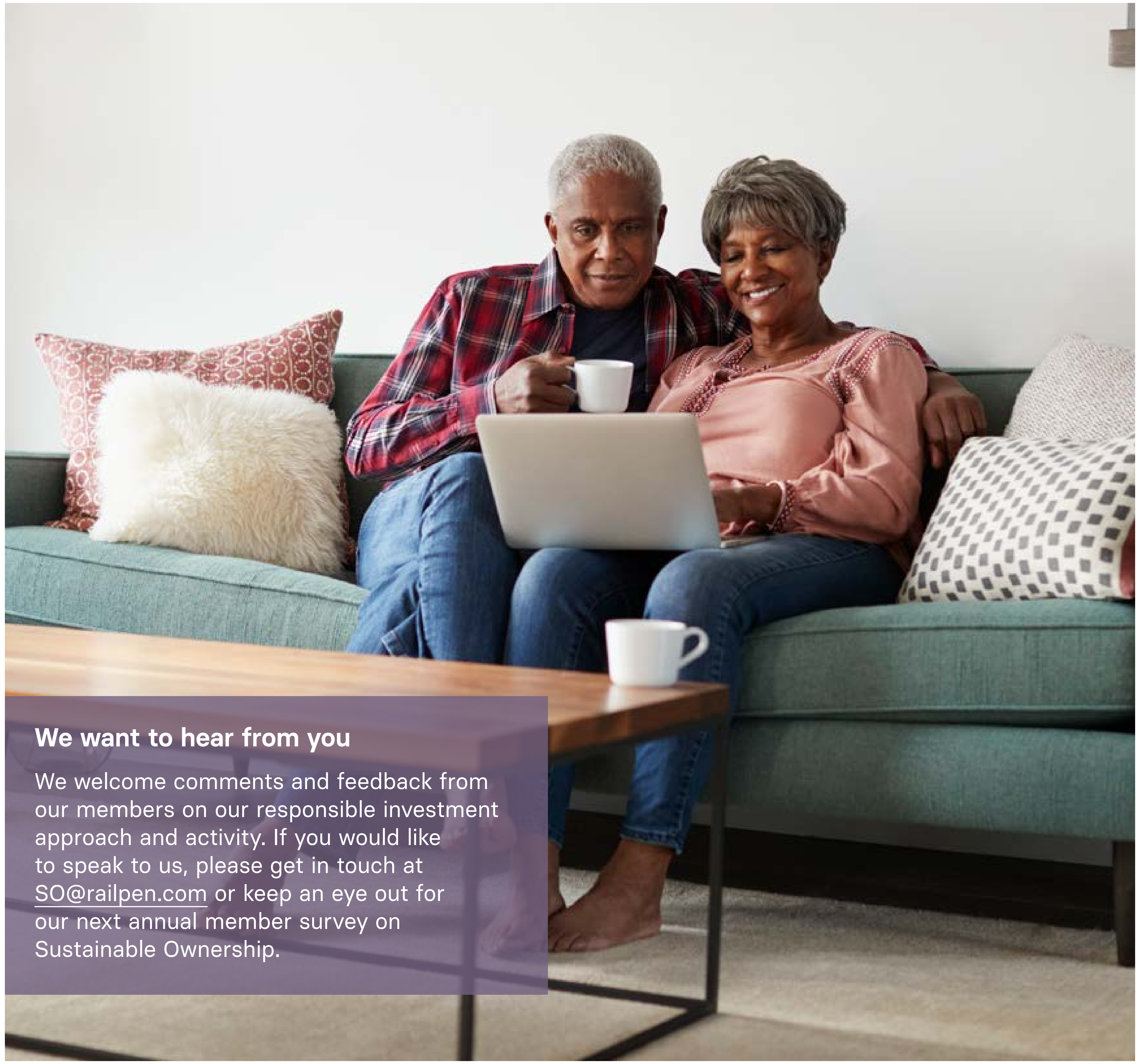
How we have made this report accessible to members

We are conscious that this is a long report. Although much of the report focuses on activities undertaken in 2022, to ensure that we continuously improve and strengthen our approach to stewardship, we have also included sections from the 2020 and 2021 reports where little change has taken place over the last year. This will provide useful context and ensure members can read the report as a standalone document.

WWe also recognise that many of the terms used in this document will be unfamiliar to our members. We have therefore provided a glossary of key terms, which can be found on page 92-93. Words that are included in the glossary are highlighted throughout this report. We have expanded this glossary since last year's report, to better cover the concepts that we think will be of interest to members and other readers.

As stewards of other people's money, transparency and effective communication is vital. While we recognise that this can lead to a significant level of detail, we have worked with our member communications and design teams to make the language and formatting as accessible as possible. This includes opting for a 'digital first' format, as we recognise that most members will be viewing this on computer or mobile devices.

As with last year's report, we will be condensing the key findings of this report into a short member-focused Sustainable Ownership Review, which we will publish later in 2023.



We want to hear from you

We welcome comments and feedback from our members on our responsible investment approach and activity. If you would like to speak to us, please get in touch at SO@railpen.com or keep an eye out for our next annual member survey on Sustainable Ownership.

OUR PHILOSOPHY AND APPROACH

About the Railways Pension Trustee Company Limited (The Trustee)

The Trustee is responsible for managing four railways pension schemes:

- BR (1974) Fund
- British Transport Police Force Superannuation Fund
- British Railways Superannuation Fund
- Railways Pension Scheme

The Railways Pension Scheme (RPS) is the largest of the four and was created in 1994 after the privatisation of the railway industry and reorganisation of the British Rail Pension Scheme. It is one of the largest schemes in the UK. It provides pensions for more than 150 companies operating within the privatised railway industry.

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the RPS and is responsible for the management of around £34 billion of assets. The Trustee is Railpen's only client, ensuring that all our activities are aligned with the interests of the schemes' members.

The railways pension schemes include many open defined benefit sections. Therefore, the Trustee bases its plans on the expectation that it will be paying the pension of an 18-year-old who is in their first job today out to 2100 and beyond. As a result, both the Trustee and Railpen consider our investment time horizon to be very long.

The length of our time horizon and investment mandate means that the management of long-term risk and opportunity has always been fundamental to the Trustee's and Railpen's investment approach. This includes our long-standing work on sustainable ownership – incorporating our ESG Integration, Active Ownership and Climate workstreams into the investment process.

The role of stewardship in achieving our purpose

The Trustee's mission is 'to pay members' pensions securely, affordably and sustainably'. Railpen supports the Trustee in delivering this objective through its own purpose of 'securing our members' future'.

We recognise that members and employers trust us with a significant responsibility, and that the decisions and actions we take affect members' future lives and wellbeing. We are proud of this responsibility, take it very seriously and are committed to and passionate about improving the lives of members.

We realise that generating the required returns to achieve this mission is challenging, and that to succeed, we need to use all the levers available to us – including stewardship – to drive improvements at the company and market level. To undertake the effective stewardship that helps achieve this, we must constantly strive to be considered an influential pension fund by our stakeholders. We are not afraid to think innovatively and act boldly, but we are also prepared to stand our ground and not follow the herd where we think the latest industry or market development will not be impactful in achieving good member outcomes.

We leverage our significant assets under management to invest wisely and influentially, guided by convictions and a clear set of Investment Beliefs. The scale of our assets allows Railpen to benefit from an expert in-house Sustainable Ownership team, which works closely with our in-house Investment Management Team[2], the Trustee and others across Railpen. This means we can incorporate material environmental, social and governance (ESG) considerations into our investment analysis, consider systemic issues and risks, directly engage with portfolio companies, play a leading part in industry collaborations and thoughtfully exercise our voting rights – all of which helps us to secure our members' futures.

[2] *The Investment Management team's objective is to successfully manage assets in a manner consistent with the Trustee's Investment Beliefs. The team manages investments in equities, fixed income, property, infrastructure and alternative assets. These are held across both private and public markets.*

How Railpen's values and culture drive our approach to stewardship

Our purpose and the strong sense of our duty to members underpins our broader culture, values and behaviours. In 2022, these were:

- **We Take Ownership:** We know what we are responsible for and empowered to deliver. We have clear priorities and share a sense of personal accountability, which means we trust each other to deliver their part in our collective goals.
- **We Are Collaborative:** We go further by acting together, sharing our ideas, expertise, ambition and energy. By being open and challenging, we make better decisions.
- **We Are Pioneering:** We are curious and courageous, always open to new ideas and striving for better ways of doing things. We embrace innovation and act on our convictions.

Trustee Investment Beliefs

The importance of collaboration, courage in our convictions and accountability to fulfilling our purpose are reflected in the new Trustee Investment Beliefs, and accompanying narrative, including the following:

- Railpen's mandate is to advise on and manage asset-liability risk on behalf of the Trustee to deliver sufficient long-term returns from the assets to meet the schemes' liabilities over a range of environments.
- On behalf of the Trustee, Railpen acts like the long-term asset owner we truly are, not afraid to be patient where decisions may result in pay-offs that are far into the future. We lean into periods of volatility and illiquidity, where others might shy away. Taking the time to position ourselves as an attractive long-term counterparty helps us access the right investment opportunities. Strategic partnerships in innovative areas take time to build but can offer significant reward.
- Occasionally, the type of asset that will best serve the needs of the schemes does not exist, so where possible Railpen builds or structures the assets the schemes need.

As with all the Trustee Investment Beliefs, these guide and shape everything Railpen does; taken together with Railpen's values (as agreed in 2019), they drove our stewardship approach last year in the following ways:

Value	Incorporation into Railpen's Sustainable Ownership work
Taking Ownership	• Each year we review and agree on the strategy, goals and accountabilities for our Sustainable Ownership Strategy for the following year and the Active Ownership, ESG Integration and Climate workstreams alongside others within the strategy. This includes well-defined objectives and priorities, clear targets and regular opportunities to update and review. • These goals are intended to clearly align and contribute to our broader Fiduciary team objectives[3] (see page 18), which in turn help us deliver for our members in line with the Trustee Investment Beliefs.
Collaborative	• We collaborate with individuals across the Investment Management and Fiduciary teams, as well as with the Trustee. The relevant Sustainable Ownership expert jointly engages with key holdings in partnership with Railpen portfolio managers and liaises on key voting decisions. • We continue to focus on building a shared understanding of the importance of stewardship, ESG integration and the roadmap to Net Zero across the broader organisation. This includes through our co-chairing of the cross-Railpen Climate Working Group and our new quarterly Sustainable Ownership-Public Markets meetings. • We collaborate extensively with others across the sustainable investment industry, to help drive long-term improvements in corporate behaviour and shape a policy and market environment that supports sustainable ownership.
Pioneering	• Railpen and the Trustee were early pioneers of corporate governance. As one of the largest UK pension schemes, we continue to lead by example and work with others to raise standards in the industry overall. • We are willing to step in to provide the necessary industry leadership on ESG issues where we consider them to be i) material to our portfolio and ii) underexplored by other investors. In 2022, this included included setting up and launching collaborative engagements on dual-class share structures and climate bondholder stewardship. Please also see case studies 25 and 26.

We recognise that we are privileged to have the scale and in-house expertise that supports us to innovate on sustainable ownership. As well as learning from others, we also worked hard last year to support pension schemes and other investors to help raise standards across the sector. This aligns with our values of being pioneering and collaborative.

[3] *The Fiduciary team is primarily focused on aligning Railpen's investment offering and capabilities with the Trustee's investment objectives and risk tolerances. The team is responsible for sustainable ownership strategy, but also for covenant, pensions policy, investment strategy, risk management and client relationship management.*

Case study 1: **Demonstrating our values | Working to raise industry standards in 2022**

In each of our Stewardship Reports to date, we have reported on our work to raise industry standards on sustainable investment. This is because the Trustee and Railpen recognise our responsibility as a large UK pension scheme to try to shape the policy and regulatory framework in a way that supports sustainable investment by investors. We collaborate extensively with others to raise industry standards and support those schemes without extensive resources or in-house support on the most pressing sustainable ownership issues. We consider this particularly important given the rapid pace of change in both regulation and market practice on sustainable investment.

In 2022, we therefore continued to play a proactive role in several investment industry initiatives aimed at providing both formal and informal practical guidance to other schemes, with the aim of raising overall industry standards. We also welcome the opportunity to hear other perspectives and incorporate them into our work on behalf of members. Our 2022 work included the following activities:

- Contributing to government working groups and initiatives aimed at providing practical support for UK schemes such as the:
  - Financial Conduct Authority's Vote Reporting Group (VRG) – where we co-chair a sub-group
  - Taskforce on Social Factors – we sit on the Steering Group
  - Occupational Pension Stewardship Council – where we sit on the Engagement Group, chair the Alphabet programme of work, and feed into the discussion on member engagement.
- Helping to shape industry guidance and practice on climate change, as a material issue of concern to Railpen, the Trustee and our members. This includes through our work chairing the Institutional Investors Group on Climate Change (IIGCC) Bondholder Stewardship Initiative, as well as our role co-chairing the IIGCC Investor Practices Programme and as a member of the Global Steering Group of the Paris-Aligned Investment Initiative (PAII).
- Focusing on other initiatives where they align with our approach and priorities. For instance, in 2022, an individual at Railpen was elected as Vice Chair of the Global Investor Governance Network (GIGN), which focuses on US corporate governance issues. This aligned with our extensive allocation to American companies. The same individual acted as lead author on a 'how to' guide produced by the International Corporate Governance Network (ICGN) Global Stewardship Committee on Systemic Stewardship and Public Policy (to be launched in 2023).
- We supplement these activities by participating in conferences and events. In 2022, these included the Responsible Asset Owner Symposium, the PLSA Investment Conference, The Economist's ESG and Climate Risk Conference, the European Corporate Governance Institute's Stewardship Symposium and a conference at the London School of Economics that brought together investors and academics on corporate governance issues.

We seek to focus our efforts and resource on those initiatives that score highly against our internal Member Impact for Time Invested (MIFTI) criteria and align with our areas of expertise and stewardship priorities, to ensure that everything we do is focused on achieving good member outcomes. We have a well-established internal discussion and triage process for ascertaining which initiatives and events we dedicate time to, as well as regular opportunities for review of our existing programme of contributions.

Railpen's Belonging Programme

In last year's report, we discussed how we brought together the Pensions Administration, Fiduciary and Investment Management Businesses under one name, Railpen, in 2021. This was alongside an organisational restructure to better align business units and reporting lines on those success factors that matter most for delivering on our purpose. We recognised that this had led to a significant amount of change for Railpen employees, particularly alongside with the shift to hybrid working brought about by the pandemic and increased hiring to support the restructure. In 2022, Railpen therefore launched its Belonging programme under the leadership of a new People and Culture Committee (PCC)[4].

The programme aims to create a sense of connectedness amongst our employees. In turn, it supports our Foundational Goal of "People passionate about our purpose". This ultimately helps us achieve the right strategic outcomes to support Railpen in securing our members' future.

Part of our Belonging programme of work in 2022 also included activity to refresh our values for 2023 and beyond. To do this, a Railpen Values and Behaviours working group (RVB) was set up, consisting of representatives from across the Railpen business. The RVB resolved that values should be co-determined, business-relevant and impactful in articulation and implementation.

Alongside the active involvement by Sustainable Ownership team members in the consideration and creation process, our stewardship and sustainable ownership work was referenced by colleagues from across the organisation when they were asked to talk about Railpen's ideal values and behaviours. This demonstrates the interplay between Railpen's values and our sustainable ownership work: our values help drive and shape how we do sustainable ownership, while our sustainable ownership work in turn has helped shape how colleagues view our organisation.

We will report further on Railpen's new values in next year's Stewardship Report.

[4] *The Committee is chaired by the Chief HR Officer and is a committee of the Executive Committee (ExCom). Its remit is to provide strategic leadership on all key people and culture-related issues. It provides strategic oversight and steer to the groups leading on developing Railpen values and behaviours, leadership development, our Inclusion and Diversity work, flexible working, listening to the employee voice and our recruitment and reward strategies.*

Deepening our work on Inclusion and Diversity (I&D)

An important part of our Belonging Programme is our work to create a more inclusive and diverse Railpen. This strand of work aims to ensure that Railpen's people can 'bring their whole selves to work', benefiting the business by bringing more diverse ways of thinking, new ideas and different approaches and perspectives.

Case study 2 highlights how our work on Inclusion and Diversity developed in 2022.

This work aligns with work undertaken by the Trustee in the last few years to improve the Board's diversity and support future recruitment. For instance, it has directed that I&D issues should be considered when reviewing all of its policies and procedures, procurement of services, member communications, scheme rule changes and the governance arrangements for the Trustee Board and its Committees.

Case study 2: **Our Inclusion and Diversity Council | 2022 work**

Background
In last year's Stewardship Report, we mentioned that a key focus in 2021 for the Inclusion and Diversity Council (I&D Council) was "Working Families", to help prioritise initiatives which reflected employee feedback about the impact of the pandemic on those with caring responsibilities[5].

Once a new 'Our People at Work and Home' policy was in place and being implemented, our 2021 Report noted that the I&D Council had agreed to build upon these changes in 2022 by:

- Understanding how our people are feeling
- Further embedding diversity into Railpen's recruitment strategy
- Working with Railpen's leaders to explore the benefits of inclusive leadership

It was felt that all these were necessary next steps to help create, and embed for the long-term, an inclusive and diverse culture at Railpen.

What happened in 2022

I&D and internal communications
In 2022, the Council worked hard to raise the profile of I&D. This included celebrating National Inclusion Week for the first time, as well as Black History Month, International Women's Day and Pride Week. Evidence shows that it is important for employees to have visible role models, so an integral part of these celebrations was the inclusion of communications from employees and senior leaders regarding their personal stories and experiences.

Understanding how people are feeling – our 2022 survey
It is important to Railpen that our work on I&D is shaped by the perspectives and experiences of our employees. To this end, the Council ran a survey in Summer 2022 to ask for employees' experiences of Railpen and their priority I&D issues. Over one-third of Railpen employees participated, indicating a high level of interest.

Key findings included:

- 80% of employees said they felt included at Railpen
- 60% thought Railpen was committed to building an inclusive environment and thought that I&D was a clear and important priority for Railpen
- 20% thought diversity was a barrier to career progression
- 20% said they had experienced a situation or issue which made them feel uncomfortable
- Neurodiversity was a priority topic for Railpen employees

Although this was the first time that Railpen had undertaken this kind of survey, it was helpful in enabling us to review the effectiveness of our 2020 and 2021 'Coming Back Better' work to support employees in dealing with the impact of the pandemic, as we recognise that there is always more that can be done.

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[5] *Please see case study 3 from last year's report.*

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Case study 2: **Our Inclusion and Diversity Council | 2022 work**

More inclusive recruitment practices
Inclusive recruitment policies and practices are a vital ingredient in creating an inclusive and diverse workplace. In 2022, Railpen took further steps to create a strong foundation including:

- Joining The Diversity Project, with representation at the Steering Committee and Advisory Board level. This provides a useful forum for us to share our experiences with, and learn from, peers on recruitment practices (and other I&D issues)
- Roll-out of a plan to ensure the Talent Acquisition Team incorporate I&D considerations into their selection criteria and processes i.e. challenging the essential criteria, looking at transferable skills and ability and not at just past experience
- Exploring best practices and working with hiring managers to implement inclusive wording and marketing of job adverts, including creating a recruitment module with training on inclusive recruitment practices
- Identifying and using I&D job boards as part of the attraction and recruitment strategy

Creating an inclusive leadership approach
While credible I&D approaches must be shaped by the employee perspective, it is important to have visible leadership from a company's senior executives and team leaders. In 2022, steps were taken to support this, including:

- Mandatory training for Railpen's Leadership Team on I&D
- Personal stories from leaders, highlighting their own experiences, on the intranet as part of various inclusivity celebrations
- Work to incorporate I&D training into the current e-learning module for senior leadership individuals championing our Community Groups

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Case study 2: **Our Inclusion and Diversity Council | 2022 work**

Next steps
Railpen used the learnings and intelligence from these 2022 initiatives to create a more formal action plan for the Council's 2023 work on I&D. The action plan received sign-off from Railpen's dedicated PCC, and is intended to support accountability for the Council against the following objectives and themes:

Theme	Objectives
Recruitment	• Actively seek out opportunities to increase the representation of talent from diverse backgrounds • Put in place mechanisms to ensure that the selection and promotion process is fair to all
Workplace culture	• Value and welcome the experiences and contributions made by people from diverse backgrounds and ensure engagement with all colleagues in I&D initiatives • Set up community groups to ensure we take insights from people with lived experience and using this to guide our plan • Encourage all colleagues to participate in I&D initiatives and surveys • Ensure our people policies are inclusive and have a framework to support flexible working
Communication	• Consider language and tone in all communications • Ensure I&D initiatives and events, such as International Women's Day or Pride Week, are communicated regularly through the intranet and dedicated intranet page

Theme	Objectives
Leadership	• Railpen leaders promote and model I&D within Railpen • Make I&D training is available to all
Measuring where we are	• Publish metrics on I&D to measure/track year on year – including a regular questionnaire to support tracking the 'temperature'

Railpen also committed to focus, within these themes, on those diversity issues that employees said had mattered most to them through the survey (as well as through other employee voice mechanisms, such as the Employee Connection Forum – please see case study 3). Already, as part of this work, Railpen has set up a new Neurodiversity Group, and also celebrated Neurodiversity Week in early 2023 for the first time.

We will report on our 2023 work and how we have performed against our action plan in next year's Stewardship Report.

Listening to our people

Another vital part of our Belonging Programme has been Railpen's work over the last few years to understand the collective employee voice. Case study 3 explores our work in 2022 on the Employee Connection Forum.

Case study 3: **Engaging with Railpen employees | Employee Connection Forums 2022**

Background

Our 2021 Stewardship Report discussed our work to rebrand and undertake an organisational restructure, both of which were intended to better help us deliver on our purpose to secure our members' futures.

Railpen has always used several mechanisms to support effective two-way communication and dialogue between senior decision-makers and employees. However, it was felt that further work was required to understand employees' perspectives in light of the:

- extensive changes to the organisation that had taken place over 2020 and 2021 generally; and
- changes to Railpen's way of working as a result of the pandemic specifically.

Additional insights would help Railpen's senior management to better consider the employee perspective in their decision-making, and support a culture of Belonging that would result in more engaged and fulfilled employees that can fully thrive.

Employee Connection Forums

Evidence shows that there is no silver bullet to ensuring that an organisation's senior management hears, and responds to, employees' views. Instead, the best approaches combine a variety of engagement methods to support an effective two-way dialogue.

In 2020, the Railpen Executive Committee (ExCom) and senior HR leaders reviewed Railpen's current approaches to workforce engagement (engagement with unions, employee surveys and ad hoc collective engagement forums) and agreed that there was a need for an additional mechanism to:

- provide a way to hear the collective voice of employees
- offer insights behind the results of our quarterly (eNPS) employee engagement survey

It was decided that Employee Connection Forums (ECFs) i.e. a network of representatives (reps) chosen by colleagues at Railpen, would most effectively be able to represent the collective voice to senior leadership. A key focus was ensuring that the Forums were genuinely led by employees, with a safe and confidential environment created to enable individuals to share their thoughts

Setting up the forums

Employee Connection representatives were nominated and then elected by colleagues from within their business unit (Benefits, Fiduciary and Investment Management) and support functions. To balance continuity with freshness of perspective, reps were informed that each representative would serve a two-year term and that each year, half of the representative positions would be up for election. Union representatives would also act as co-opted members of the group of Employee Connection representatives for their business units.

Regular meetings were set up between ECF representatives and senior Railpen decision-makers, with actions noted and follow-ups implemented to ensure real action was taken. The notes of each unit's meeting would also be written up and published on the Railpen intranet, to ensure transparency and open communication with all employees.

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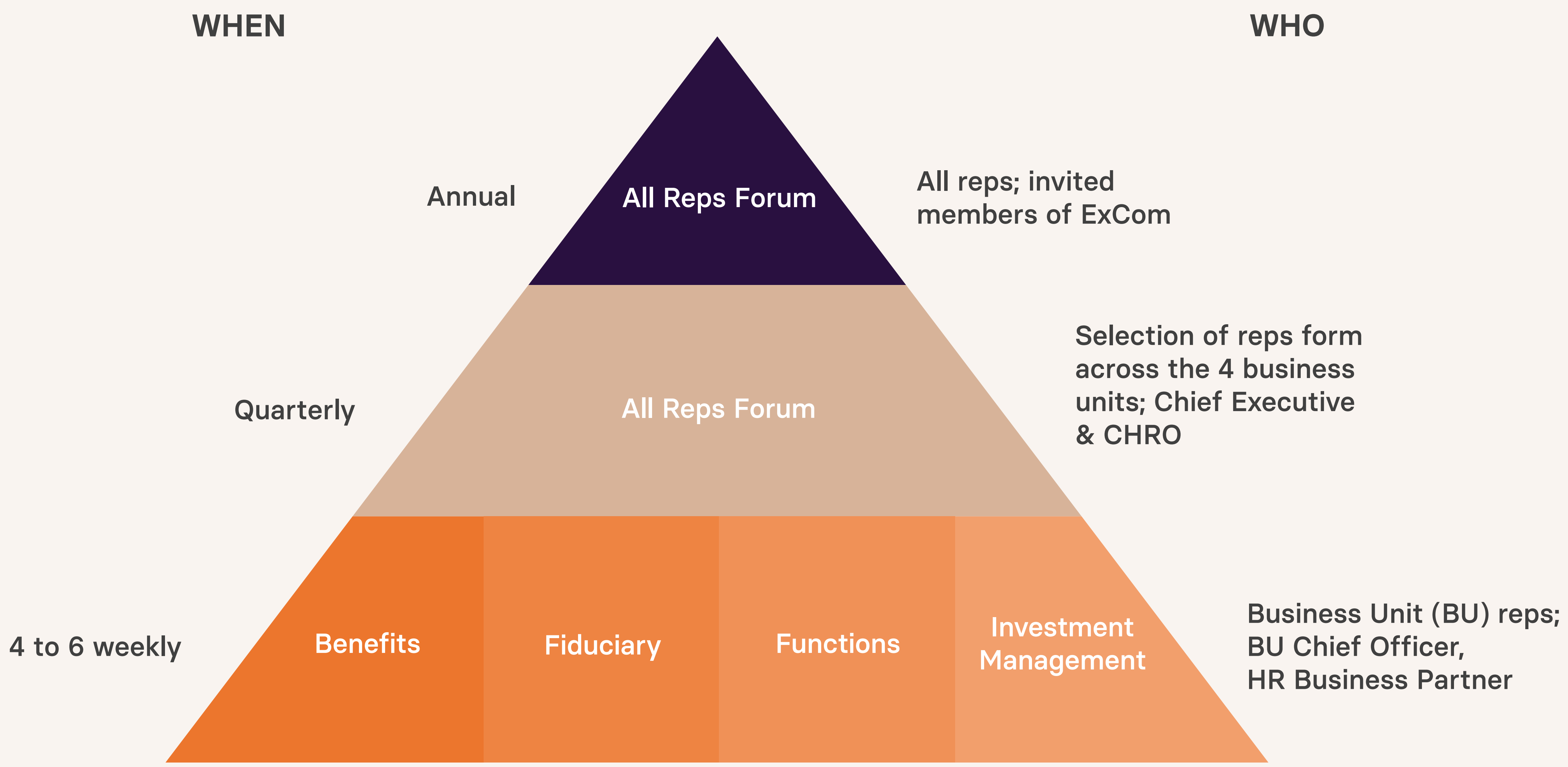
Case study 3: **Engaging with Railpen employees | Employee Connection Forums 2022**

The illustration below summarises the frequency and type of ECF meetings.



In addition, ECF representatives meet with the Non-Executive Railpen Board members semi-annually.

2022 Impact of the ECF
Issues raised with ECF representatives by Railpen colleagues in 2022 included: flexible working arrangements, the nature of current learning and development programmes, support during the cost of living crisis and perspectives on day-to-day office experience.

Actions taken in 2022 in response to ECF feedback included the following:

Working flexibly
Railpen introduced hybrid working in 2021, in 2022 this evolved and was further embedded into Railpen's way of working. Employee Connection reps played an essential part in providing feedback on how employees were feeling about hybrid working and where more support was needed. Thanks to their feedback we introduced working flexibly sessions for employees and line managers to better help everyone understand our approach to working flexibly and enable people to ask questions/ gain clarity on how this works in practice.

Learning and development
Since the introduction of Employee Connection, reps have been feeding back regarding the need for better access to learning and development. Feedback included better support for users of our HR information system, Workday, training and support for line managers in 'Managing the Railpen Way', more targeted individual and team development. Thanks to this feedback we have introduced online videos for Workday and Managing the Railpen Way, along with launching an apprenticeship program.

Cost of living support
The cost of living crisis in the UK has impacted colleagues in different ways. Via Employee Connection we gained real insight about these concerns, which allowed us to respond. We implemented a one-off cost of living payment for our lower paid employees in December 2022 and reviewed our expenses policy to lift allowances for those travelling away with work. Please see case study 7 for more details of the one-off payment.

Day to day office experience
We have received valuable feedback on small but significant concerns regarding our office environment. These ranged from the quality and availability of beverages, to concern about the environmental impact of having display screens on all the time in the offices. As a result, we have been able to make a number of on-going improvements to the working environment – some small, some large, but all about helping our people feel more connected to Railpen and our purpose.

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Case study 3: **Engaging with Railpen employees | Employee Connection Forums 2022**

Next steps and implications for our stewardship work
Although there have already been clear positive impacts from the introduction of the ECF, there remains a need for a more structured way to gather the collective views of colleagues, instead of the views of an interested and highly engaged minority – as has been the experience so far. In 2023, the ECF representatives will therefore proactively contact a representative sample of colleagues to understand how they can improve engagement, and feed back some recommendations to ExCom.

The ECF work, alongside other engagement mechanisms, supports our stewardship activity not only in creating a culture of Belonging that helps employees to achieve our purpose of securing our members' futures, but also through providing Railpen's Sustainable Ownership team with insights into workforce engagement mechanisms. This has been particularly valuable in shaping our 2022/2023 stewardship activity on "Workforce Inclusion and Voice: Workforce Directors", which was additionally informed by a discussion between individuals from the Sustainable Ownership and HR teams to ensure alignment and share valuable insights and learnings.

Stewardship in line with the Trustee's Investment Beliefs

Each of the Trustee's in-depth Investment Beliefs provides the parameter and framework for all parts of the investment process used across the organisation and our stewardship activities more specifically. A coherent and updated set of beliefs helps Railpen to ensure an alignment between our investment decisions and the interests of all our schemes' members.

In 2021, the Railpen team worked closely with the Trustee to formulate a new set of Investment Beliefs that reflect how our investment philosophy has evolved in recent years and what our clients need from us in the future.

Although all of the beliefs are relevant to our sustainable ownership work, the belief that is most pertinent is:

- **Incorporating and acting upon climate risk and other environmental, social and governance factors is a significant driver of investment outcome and part of our fiduciary duty.**
- Environmental, social and governance ('ESG') factors affect corporate financial performance, asset values and asset-liability risk. Well-informed and financially material ESG analysis, as part of a holistic investment process, supports the identification and ultimately the pricing of ESG risk and opportunity. Constructive engagement combined with thoughtful voting can protect and enhance investment value.
- A long investment horizon exposes a pension scheme to societal and systemic risks, such as climate change. These risks are growing and need to be managed. Capital allocation by investors and corporates makes a difference in how these risks play out. Railpen has a responsibility to make a scheme's assets resilient to systemic threats and position portfolios for long-term opportunities. We believe it is possible and necessary to deliver the returns the schemes need, whilst positively contributing to the world our members retire into.

The table below considers the impact of the changes to this belief on our 2022 sustainable ownership work.

Investment Belief	2022 impact and progress
Well-informed and financially material ESG analysis	• Sustainable Ownership team deep-dives on priority holdings • Deeper focus on financially material stock-specific ESG risks, linking to engagement objective setting and monitoring
Societal and systemic risks, such as climate change	• Led authorship of an ICGN Viewpoint (guidance) on "Systemic stewardship and public policy" (to be launched in 2023) • New collaborative engagements launched on systemic risks e.g. unequal voting rights, climate bondholder stewardship
Capital allocation by investors and corporates makes a difference	• Review of climate solutions-focused funds • Refining our cluster munitions and climate exclusions processes • Implementation of a more rigorous governance and conduct exclusions process
Positively contributing to the world our members retire into	• Deepening our impact-focused approach to engagement • Exploring the impact investment landscape

Railpen's approach to stewardship

"Sustainable Ownership" is the term we give to Railpen's approach to incorporating sustainability considerations into the investments we manage on behalf of members. This work is enabled by and delivers against the Trustee's related Investment Beliefs. The explicit link between the Sustainable Ownership work undertaken to protect the value of members' savings is provided through our role in the Fiduciary function, which was established to act as the internal representative within the Railpen business of the Trustee, clients and – ultimately – members.

The Railpen investment process considers ESG factors through four lenses: improving investment returns, reducing investment risk, impacting Railpen's reputation as a responsible investor and impacting the future world members retire into. Railpen believes that incorporating these lenses into the investment process increases the likelihood of achieving the Trustee's mission.

The lenses are then used to inform the three priority workstreams within Sustainable Ownership:

- **Active ownership:** Railpen's approach to engagement and voting
- **ESG integration:** Incorporation of ESG considerations into the investment process
- **Climate:** Our work to integrate climate considerations into our approach to investments and liabilities

We believe companies with good corporate governance practices and engaged shareholders are more likely to achieve the superior long-term financial performance that our members need. Strong governance in portfolio companies tends to ensure their effective management of all relevant risks and opportunities, including those related to environmental and social factors.

By actively engaging with portfolio companies and exercising our voting rights, it is possible to have a positive influence. This helps Railpen, on the Trustee's behalf, to enhance long-term investment returns for members.

Progress and effectiveness at serving members' best interests

Guided by the Trustee's Investment Beliefs, Railpen set the following strategic goals for 2022:

Figure 1 - Railpen's 2022 strategic goals

Building on the Railpen strategic goals, the Fiduciary Team established a set of 2022 Fiduciary goals. These are mapped back to the strategic goals to ensure alignment between team activities and company strategy. Within this, there were the following Fiduciary goals related to sustainable ownership:

Fiduciary goal	2022 impact and progress
Develop trusted professional relationships	Top tier communication of sustainable ownership content, education and reporting for internal and external stakeholders
	Trusted professional relationships with sustainable finance policy-makers and peers
Achieve investment outcomes	Enhancements to the quality and efficiency of our analysis and monitoring of financially material ESG risks in the investment portfolio
	Deliver on project plans for BAU stewardship and focused thematic priorities: • Worth of the Workforce • Responsible Technology • Sustainable Financial Markets
	Enhancements to the governance and monitoring of climate risks and opportunities, and progress against the Net Zero Plan
Provide excellent fiduciary advice	Develop sustainable ownership analytic capabilities to enhance our advisory service
	Integrate sustainable ownership considerations in our broader fiduciary engagements with employers and the Trustee Board

All of these were intended to support us in undertaking effective stewardship on members' behalf to help Railpen secure our members' future. Progress in 2022 against these objectives is outlined in the tables to the right. We were also delighted to achieve 2022 prizes for Investment Innovation and our Carbon and Net Zero Strategy at the 2022 IPE Europe awards, as well as the European Pensions Award for European Pension Fund of the Year, where the judges praised our sustainable ownership work. A number of members of the Sustainable Ownership team also won, or were finalists for, individual awards for the ICGN Stewardship Rising Star as well as the Professional Pensions 2022 Awards for Women in Pensions and Rising Star Awards for Investment Manager of the Year.

Progress against objectives in 2022

Objective 1: Communications which reflect stakeholder input and raise awareness	
Progress in 2022	• Sustainable Ownership Review (published September 2022) designed around member survey feedback (please see case study 5). • Twice annual meetings with the Sustainable Ownership Client Forum • Agreed 2022/23 sustainable ownership member communications plan (incorporating feedback from member survey) • Redesigned client reporting to reflect feedback on e.g. outcomes-focused case studies • 2022 Trustee deep-dive sessions tailored to match Trustee requests • Regular discussions with relevant policymakers, including invitations to join DWP's Taskforce on Social Factors and the FCA's Vote Reporting Group • Set up a policy horizon scanner
Next steps	• Review of sustainable ownership member communications plan • Creation of new 'assets' including a sustainable ownership animated video for members • Deep-dive webpages on key Railpen sustainable ownership initiatives, including the Investor Coalition for Equal Votes (ICEV) (please also see case study 25.)

Objective 2: Deepen integration of sustainable ownership across pre-investment and post-investment	
Progress in 2022	• Sustainable ownership analysis of priority holdings in the Fundamental Equity portfolio • Thematic deep-dive analyses on issues including biodiversity • Launch of Investor Coalition for Equal Votes (June 2022) and IIGCC Bondholder Stewardship Coalition (December 2022) • Publication of "Worthwhile Workforce Reporting" guidance with PLSA, CIPD, High Pay Centre and Board Intelligence
Next steps	• Launch of Workforce Directors initiative in the first half of 2023 • Review of engagement objectives and focus companies in Q1 2023

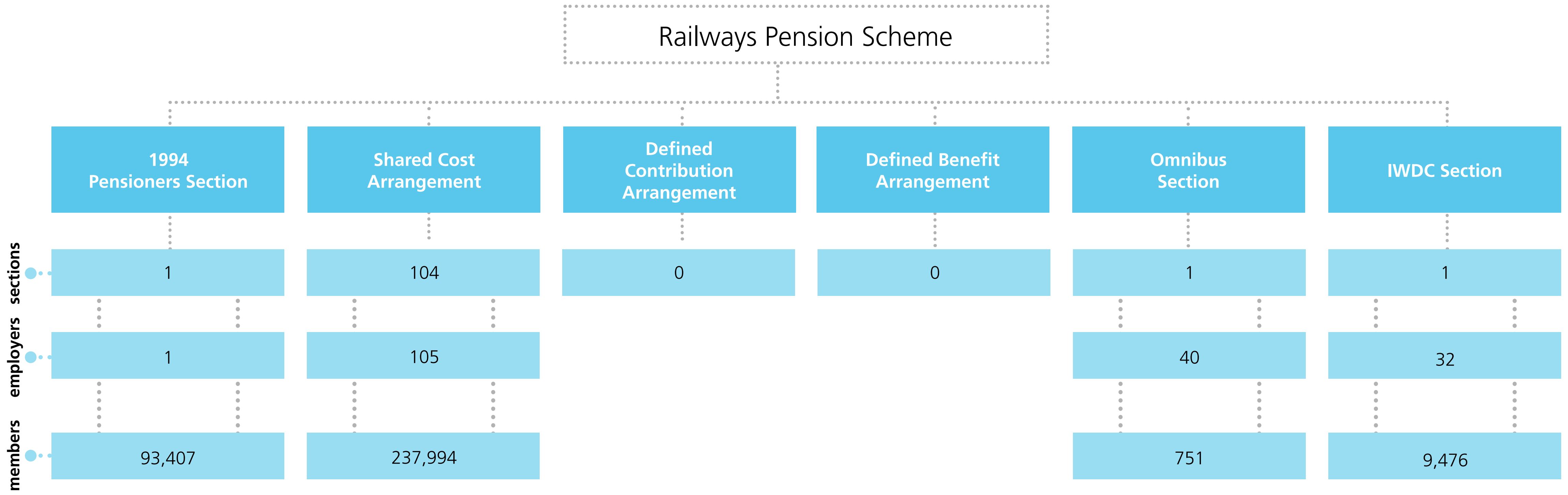
Objective 3: Develop in-house analytical capabilities	
Progress in 2022	• First phase completed in build of proprietary corporate governance scoring methodology • Review of the stewardship objective and tracking database landscape undertaken • Dedicated 'Career Progression, Learning and Development' module rolled out across the Sustainable Ownership team
Next steps	• Update review on product landscape and potential work on proprietary stewardship database (please see case study 17)

Objective 4: Develop robust integrated funding risk management advice	
Progress in 2022	• Head of Sustainable Ownership appointed to the Investment Risk Committee
Next steps	• Reporting line for Investment Risk and Sustainable Ownership teams merged in Q1 2023 • Secondment from Sustainable Ownership team to the Client Investment Solutions team in Q2 2023

Objective 5: Development of a rail proposition which is attractive to clients	
Progress in 2022	• Ethical investment option launched
Next steps	• Monitor uptake of ethical investment option • Continue to monitor member feedback and evolution of broader market for sustainable and ethical investment options

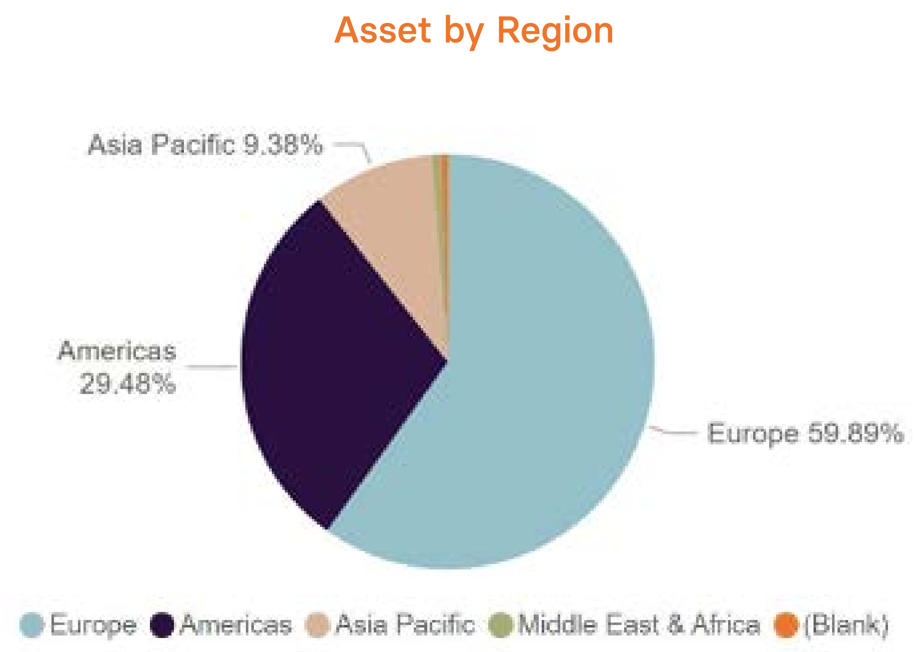
STEWARDSHIP IN THE INTERESTS OF MEMBERS

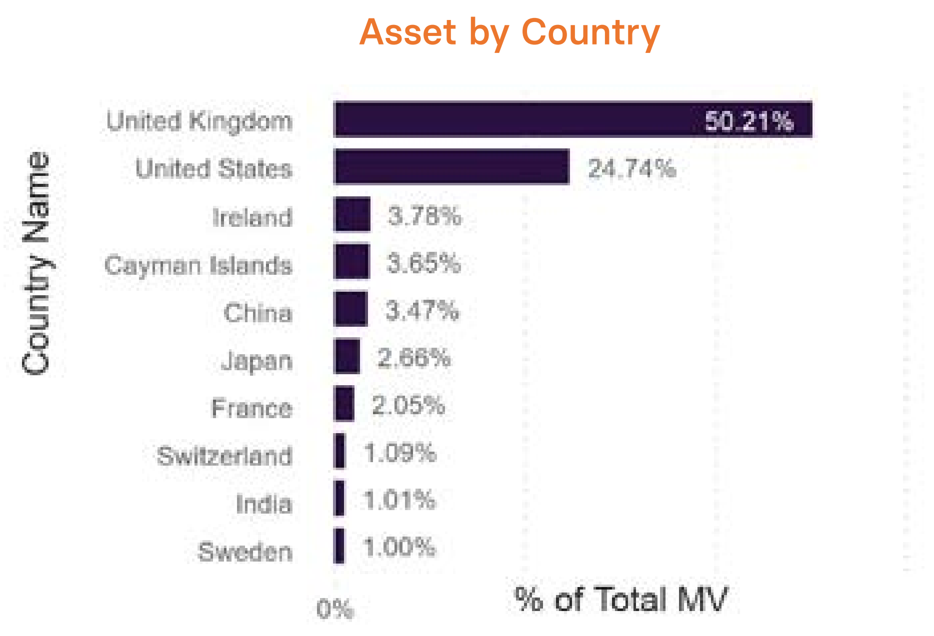
The RPS, which is the largest of the four schemes managed by the Trustee, comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution (DC) Arrangement, the Defined Benefit (DB) Arrangement, the Omnibus Section and the IWDC Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 107 sections across the six parts of the RPS, as illustrated below:



The £34 billion portfolio helps to pay the pensions of around 350,000 members. Given that many of the DB sections are open to new members and future accrual as well as having open DC sections, our investment time-horizon is extremely long. This means we have a significant allocation to growth assets such as listed equity, so a significant proportion of our sustainable ownership resource is dedicated to the thoughtful exercise of our (substantial) voting rights alongside constructive engagement.

30 December 2022





Top 10 Companies

IssuerName	MarketValue	Country
Visa Inc	£243M	US
Texas Instruments Inc	£202M	US
UnitedHealth Group Inc	£188M	US
Novo Nordisk A/S	£184M	DK
NextEra Energy Inc	£182M	US
Gilead Sciences Inc	£174M	US
Roche Holding AG	£169M	CH
Nestle SA	£167M	CH
Accenture PLC	£165M	US
Thermo Fisher Scientific Inc	£165M	US

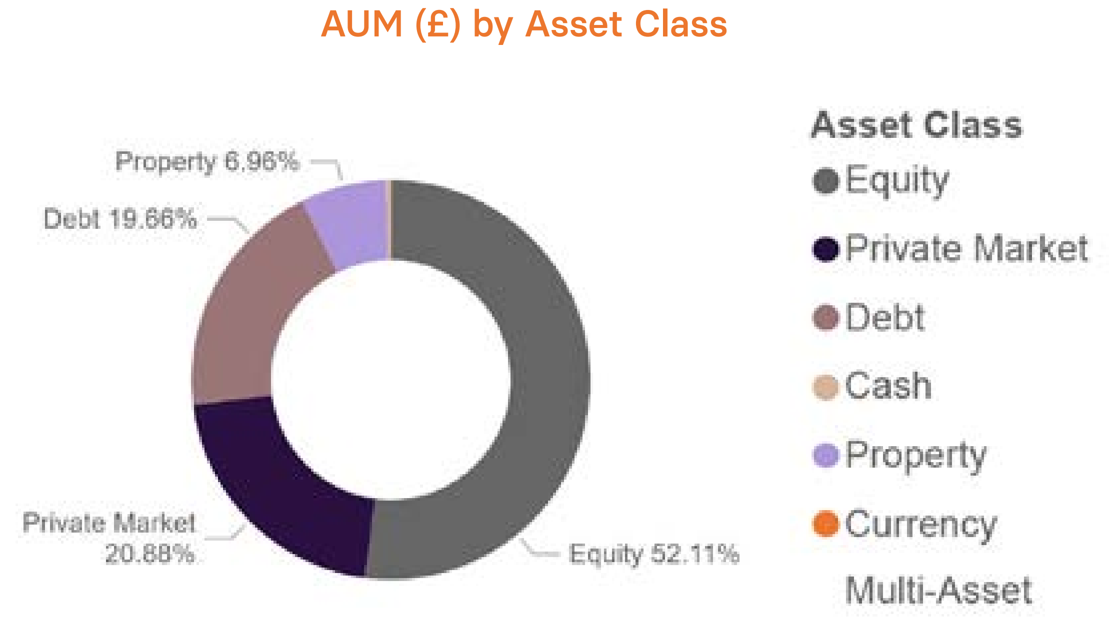


Figure 2 - Railpen's assets by country and asset class, 30 December 2022

Our portfolio continues to be mostly concentrated in developed markets and, in particular, the United Kingdom and the United States. This influences the level of resource we dedicate to stewardship activities in these jurisdictions, including our engagement and voting activities, as well as participation in relevant industry initiatives and policy debates. Prioritisation is vital to ensure that we focus resource on where we can achieve the greatest impact on our members' behalf.

The geographical split also reflects the nature of some of our private markets and real estate holdings, where we believe we can achieve greater oversight and exert more positive influence over holdings in the domestic market.

How we understand the views of members

The table to the right provides details of the demographics of our membership as at 31 May 2021, across age, location and gender[6].

From this table, we can gauge that the average proportion of Active, Deferred and Pensioner members who are female is 30%, though this proportion increases in both the very young age categories (on children's or dependants' pensions) – and the older categories (likely owing to women's greater average longevity). It also falls to 21% on average when considering Active members. Active members are most likely to be between the ages of 45 to 64 and 36% of all members reside in London or the South East.

Although there is an emerging body of evidence that seeks to highlight how attitudes to sustainable investment differ across gender, age and other demographic indicators, we believe that the results remain too inconclusive at this time. We continue to follow the debate with interest, however[7].

This is one of the reasons why, in 2022, Railpen re-ran its 2021 survey of RPS members on their attitude to sustainable ownership, and their communication preferences. We explore this survey and our broader sustainable ownership member engagement project in further detail in case study 5.

Age Group (years)	Approx. number of Active, Deferred and Pensioner members	Proportion of females (%)
0-4	13	46
5-9	90	54
10-14	278	54
15-19	653	41
20-24	3,185	33
25-29	9,330	32
30-34	15,394	28
35-39	19,962	30
40-44	23,509	33
45-49	34,761	31
50-54	45,225	26
55-59	45,202	23
60-64	38,503	21
65-69	27,790	23
70-74	24,929	27
75-79	18,680	35
80-84	16,067	45
85-89	12,941	55
90-94	7,874	62
95-99	2,492	67
100-104	334	74
105-109	32	63
TOTAL	347,244	

6 *We update this every few years to understand any trends in how our membership may have changed.*

7 *For instance, we note the growing body of increasingly consistent evidence on gender. This includes RBC's 2021 survey which found that "women are more than twice as likely as men to say it is extremely important that the companies they invest in integrate ESG factors into their policies and decisions", as well as 2022 Danske Bank research stating that "59% of men were ready to invest in companies that ignored sustainability provided they generated higher returns", compared to 41% of women.*

This member engagement project complemented our existing primary mechanisms for understanding membership perspectives, across 150 different employers, on sustainable investment:

- The Trustee Board. All sixteen members are nominated by the members or employers of the Scheme and bring a valuable understanding of member views to their trusteeship.
- The Pensions and Management Committees (Pensions Committees). These have been implemented by around a quarter of sponsoring employers – covering around 85% of the membership – to provide additional governance oversight. They are key forums for understanding the member perspective, and
- The Asset Management Committee (AMC). This was established in 2021 to advise on investment issues, make significant investment decisions and oversee investment and fiduciary activity on behalf of the Railpen Board. Membership comprises one Railpen Independent Non-Executive Director (iNED), two independent investment experts, two Trustee Non-Executive Directors or Trustee Directors and the Chief Executive.

The Railpen team has several formalised opportunities for interaction with these groups. For instance, the Sustainable Ownership team has hosted offsite days with Trustee Board representatives, the Investment Management team, the Railpen Board and other senior stakeholders.

In 2022, the Sustainable Ownership team also undertook a series of half-day sessions with the Trustee to seek views on key areas across sustainable ownership, and provide training on relevant issues. While in 2021 our sessions were focused on broader overviews of our sustainable ownership workstreams, in 2022 we sought to build on this knowledge by undertaking deeper dives on priority topics. This included sessions dedicated to the work in implementing our roadmap to net zero, our Taskforce for Climate-Related Disclosure (TCFD) and Stewardship Reports, and how we work to achieve good stewardship outcomes.

These dedicated sessions are complemented by quarterly standalone reports on sustainable ownership activities to be brought to each Trustee meeting for noting. The team also holds regular discussions with the Trustee Director who acts as a dedicated liaison on sustainable ownership.

Our 2021 Stewardship Report discussed how we deepened our interactions with our Pensions Committees and set up a dedicated Sustainable Ownership Client Forum. Our case study 4 outlines how these interactions and forums developed in 2022.

Case study 4: **2022 dialogue with Pensions Committees**

Over 2022, Railpen's team discussed our sustainable ownership work with Pensions and Management Committees (Pensions Committees) through regular meetings as well as the dedicated Sustainable Ownership Client Forum, which consists of ten Pensions Committee members, as well as the Chair of the Trustee Board and another Trustee Director.

Sustainable Ownership team members attend where Pensions Committees have shown specific interest in ESG issues. This is in addition to the regular written quarterly updates provided by the Sustainable Ownership team to all Pensions Committees.

Issues discussed included:

- highlights from our 2021 Stewardship Report (published in 2022)
- our approach to climate risk management
- the role of biodiversity in our Net Zero Plan

Questions from members of our Pensions Committees covered how we measure the impact and effectiveness of our engagements, how our work compares to those of our peers, how we can work together with sponsoring employers on climate risk, how we approach fair pay and the criteria that govern our exclusions lists.

As always, these conversations provided useful further input into our thinking. In particular, they provided additional support for our work to:

- assess current market solutions for tracking engagement objectives and outcomes
- participate in regular opportunities for discussion and collaboration with peers
- work with other UK investors in 2022 and 2023 to consider what constitutes appropriate fair pay metrics

Our Sustainable Ownership Client Forum (SOCF)

As highlighted in previous Stewardship Reports, Railpen in 2021 set up a Sustainable Ownership Client Forum (SOCF) to complement the interaction with our Pensions Committees and to expand and deepen the level of interaction.

The agenda for each meeting is put together by the Sustainable Ownership team, based on interest from SOCF members. The 2021 meetings were focused on broader awareness raising of our Sustainable Ownership work, which provided the foundation for our 2022 meetings to focus on 'deep-dives' into specific topics and initiatives from the team. These included:

- our approach to Modern Slavery in our investments;
- climate risk in the investment portfolio, our Net Zero Engagement Plan and case studies
- our engagement and voting activity and impact in 2022, including case studies
- how we consider, and seek to influence on, diversity at portfolio companies

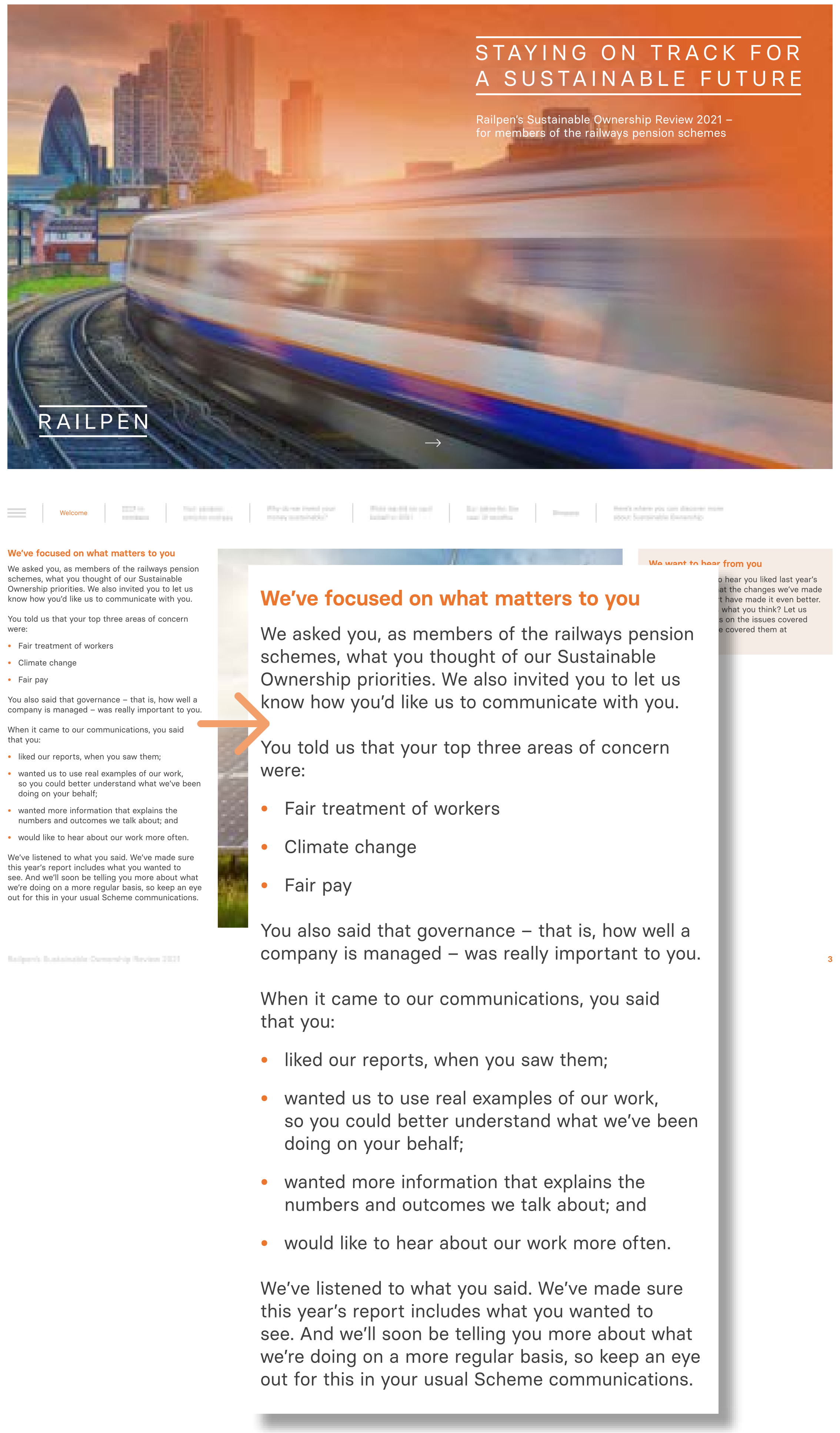
The SOCF provided helpful challenge to our communication on these issues, while also giving us feedback on some of our planned activities, including questions on our approach to climate risk, how we reflect on our voting activities and how we evaluate ourselves compared to peers.

In 2023, we will further build on the 2022 discussions by focusing in on key Railpen initiatives that we know are of interest to the SOCF, including: sustainable ownership across our Long-Term Income Fund (LTIF – please also see case studies 10 and 15) and our collaborative engagement initiative the Investor Coalition for Equal Votes (ICEV) (please also see case study 25).

How we talk to members about stewardship

We believe that accessible, engaging communication on sustainable ownership issues can benefit how members engage with their pension savings. As a result, Railpen has always taken member communication seriously. This is why, in addition to the longer-form Stewardship Report we have also published an annual, standalone, member-focused Sustainable Ownership report (the Sustainable Ownership Member Review) since 2017.

Last year's Stewardship Report outlined the steps we took to improve the accessibility of the Sustainable Ownership Member Review[8]. In 2022, we built on feedback on the previous report – as well as the responses from the 2021 member survey – to further develop our approach to member-focused reporting on sustainable ownership. We discuss this more in case study 5.



STAYING ON TRACK FOR A SUSTAINABLE FUTURE

Railpen's Sustainable Ownership Review 2021 – for members of the railways pension schemes

RAILPEN

We've focused on what matters to you

We asked you, as members of the railways pension schemes, what you thought of our Sustainable Ownership priorities. We also invited you to let us know how you'd like us to communicate with you.

You told us that your top three areas of concern were:

- Fair treatment of workers
- Climate change
- Fair pay

You also said that governance – that is, how well a company is managed – was really important to you.

When it came to our communications, you said that you:

- liked our reports, when you saw them;
- wanted us to use real examples of our work, so you could better understand what we've been doing on your behalf;
- wanted more information that explains the numbers and outcomes we talk about; and
- would like to hear about our work more often.

We've listened to what you said. We've made sure this year's report includes what you wanted to see. And we'll soon be telling you more about what we're doing on a more regular basis, so keep an eye out for this in your usual Scheme communications.

Figure 3 - Excerpt from our 2021 Sustainable Ownership Review

We talk more about the role the publication of this report played in our broader 2022 member engagement activity on sustainable ownership issues in case study 5.

Further to our standalone reports, we are transparent about our engagement and voting activities on an ongoing basis. Our Active Ownership page on the Railpen website offers access to our:

- Latest Global Voting Policy
- Questions asked at AGMs
- Thought-leadership publications and consultation responses
- Sustainable Ownership disclosures and reports
- Railpen's voting activity

We also seek a dialogue on sustainable investment issues with members through our social media channels, including a dedicated Member Advisory Group. Sustainable Ownership content forms a significant proportion of our content on the @Railpen and @RPSpensions Twitter feed, as well as posts on LinkedIn.

Members are encouraged to feed back views and questions via email, with contact details flagged on every sustainable ownership publication. This includes during AGM season, where the Sustainable Ownership team responds to member queries on how Railpen intends to vote at any contentious meetings.

We also continue to provide content on our sustainable ownership work for member newsletters at regular intervals. While we get a regular stream of member queries on our sustainable ownership work throughout the year, there is a large number of members that we do not hear from directly via our outreach channels. This was one reason why we decided to undertake a dedicated sustainable ownership member engagement project in 2021, as discussed in last year's Report, and why we continue to survey members every year on both their sustainable ownership priorities and how they would like to engage with us on these issues (please see case study 5).

[8] *Please see case study 5 in our 2021 Stewardship Report for more details.*

Case study 5: **2022 sustainable ownership engagement with members**

Background
In our 2021 Stewardship Report, we discussed our three-phase sustainable ownership engagement project that year, which included our first survey of members and our first member focus groups on ESG issues. The intention was to understand i) how our members felt about sustainable ownership, including their priority topics, and ii) how they wanted to be communicated with. We found that priority topics were workforce treatment, climate change, fair pay and biodiversity and that only 33% of members had seen any communications from us on our sustainable ownership activity.

We had committed to report this year on our 2022 work to address this feedback and measure any change in attitudes amongst our members.

Our approach in 2022
We decided to re-run two of the three phases of our 2021 member engagement work in 2022:

- A Sustainable Ownership Review – which would seek to address feedback from the 2021 member survey
- A member survey on sustainable ownership issues

We agreed not to repeat the focus groups that we had previously undertaken but will be looking to re-run these in 2024.

Our 2021/2022 Sustainable Ownership Review
As in previous years, our 2021/22 Review was designed to be as easy-to-understand as possible for members, including case studies and a glossary. However, we were also able to incorporate the results of our previous (first) member survey into the Review, which allowed us to better tailor the report to members' preferences. Key changes included:

- case studies which aligned with priority member issues
- more "real examples" of our work, so that members could better understand what we were doing
- more detailed examples and quantification of our outcomes
- being clear about where we felt we had not made the progress we had wanted

We included a dedicated section in the report that summarised these changes and linked them to the results of the previous year's member survey. We also expanded our glossary of terms.

The Review was published several weeks in advance of our member survey, to allow interested members to read this before responding to our questions. We also emailed members about the Review and flagged its publication in written communications to members of the railways pension schemes.

Our 2022 member survey on sustainable ownership
In November to December 2022, we surveyed the membership again on sustainable ownership. We tried new mechanisms to bring the survey to the attention of members, including sending to our member advisory group, highlighting in a member newsletter, posting news pieces on member websites and promoting through various social media accounts. While we repeated the same questions as in the first year (so that we could draw some initial comparisons), we also added a question to members on their ethical preferences. This was in response to a request to do so from members in the previous survey.

Key findings from our member survey:

- The proportion of people who were familiar with the term 'sustainable ownership' had increased by nine percentage points (from 65% to 74%)
- 74% of members were aware that Railpen was a leader in sustainable ownership (up from 56% the previous year)
- 53% of respondents had seen some kind of communication from us in the previous year on sustainable ownership (33% in 2021)
- The priority ESG issues remained exactly the same (in order): workforce treatment, climate change, fair pay and biodiversity
- The priority ethical issues were (in order): human rights, firearms/indiscriminate weaponry, fossil fuels and tobacco

Despite extensive efforts to disseminate news of our survey to the membership, only a few more people responded than in the previous year. This remains an area of improvement. We also noted isolated concerns (mirrored in the mainstream media) about the potential for sustainable ownership objectives to divert from seeking investment returns. Railpen's sustainable ownership activities are in fact premised on the Trustee's Investment Belief that sustainable ownership and long-term returns are mutually reinforcing, so our reflection on these comments is that they are suggestive perhaps of a need to better articulate the financial materiality of our sustainable ownership work with members.

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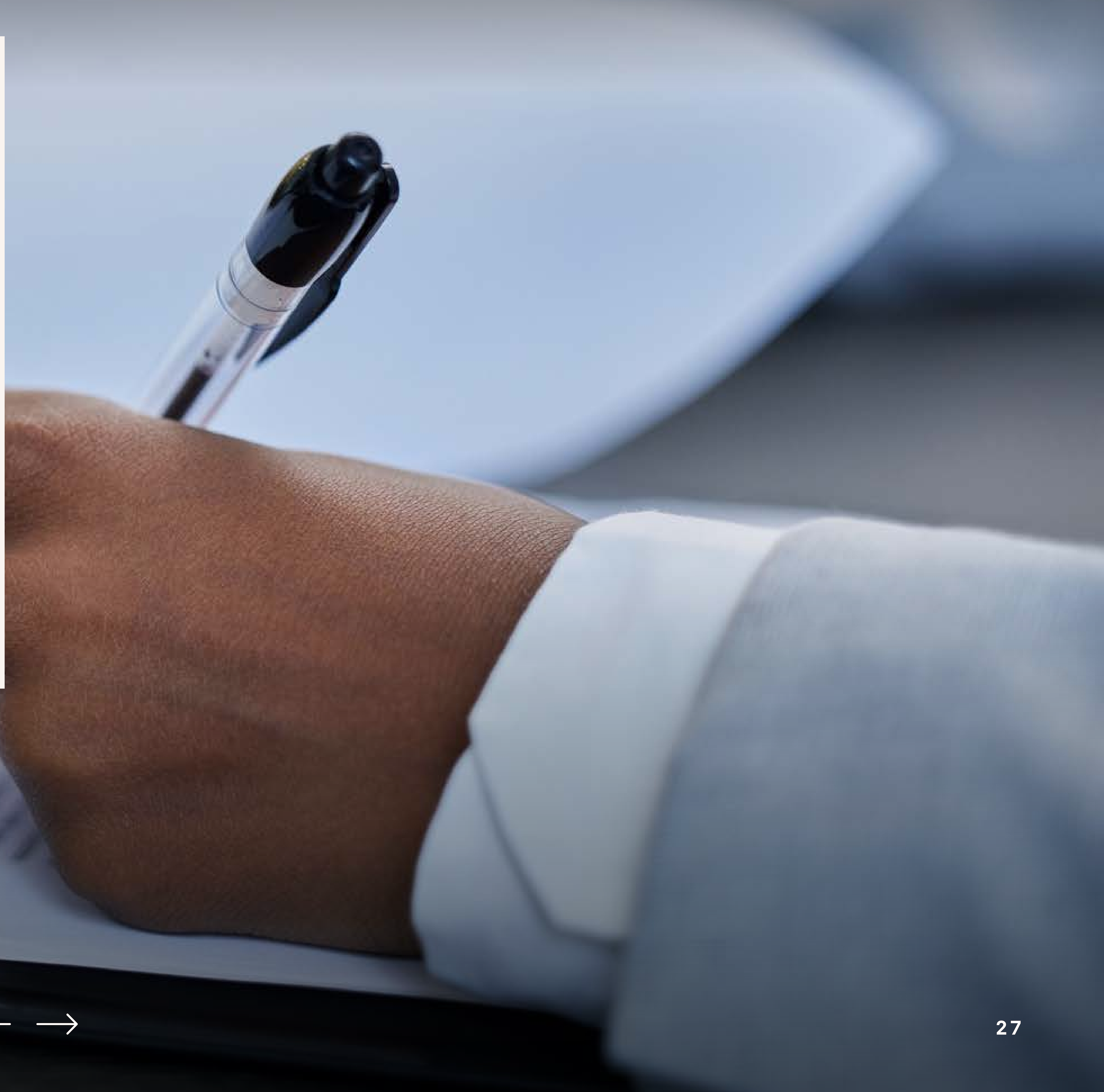
Case study 5: **2022 sustainable ownership engagement with members**

Next steps
We are cautiously optimistic that some of the member survey findings seem to indicate that members are more aware of our existing sustainable ownership disclosures and work, though in future member questionnaires we will look to understand whether this is a trend as opposed to a temporary spike. The findings therefore give us some comfort that our work with the Communications team to discuss sustainable ownership with members more often and more clearly may be bearing fruit.

In our first ever sustainable ownership animated video we have improved the clarity of emphasis on the financial materiality of ESG issues. We published a blog on our member websites that flags examples of how we have achieved financially material impact on companies through exercising our voting rights (published in March 2023).

On ethical issues, members of the Defined Contribution (DC) sections of the railways pension schemes have access to an ethical investment option, which addresses many of the ethical priorities raised. Therefore, the findings from this member survey give us comfort that issues identified as important to members in previous discussions, including with the Trustee Board and Pensions Committees, are being addressed. However, we will consider these member perspectives when reviewing the investment options.



HOW OUR STRUCTURES ENABLE EFFECTIVE STEWARDSHIP

Our in-house investment management approach

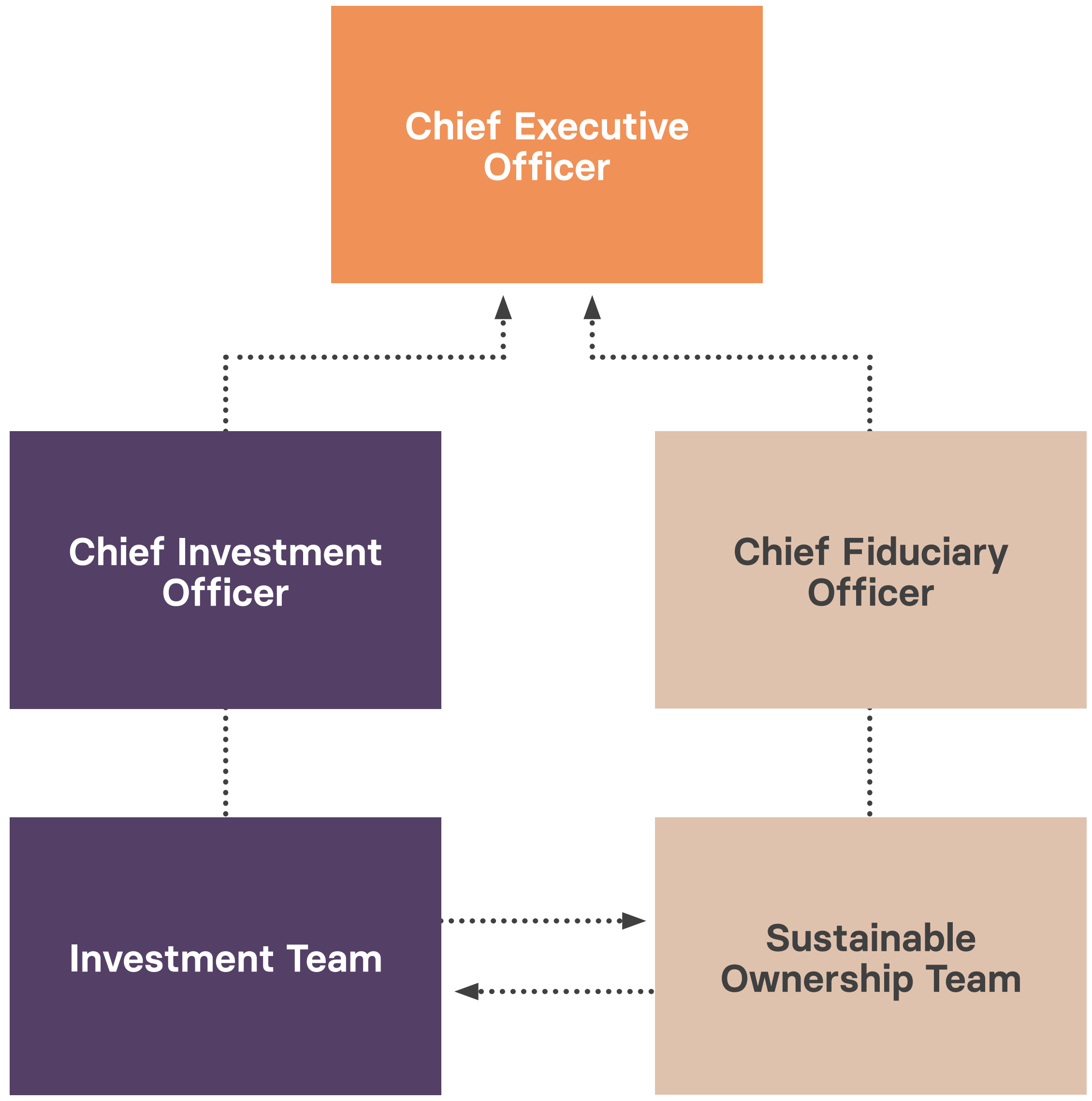
The Trustee remains relatively unusual amongst UK pension schemes in managing many of its assets through an in-house Investment Management team. This commenced with our Investment Transformation Programme in 2013, where we decided an in-house approach could provide more efficient and effective oversight and implementation of our long-term investment strategy on members' behalf. The momentum towards internalisation continues, with a growing proportion of Railpen's assets invested in-house. This has significant benefits for Railpen's stewardship and ESG integration work as it allows us more direct control over the sustainable investment implementation both at the pre- and post-investment phases and ensures greater alignment with our thematic priorities and the Trustee's Investment Beliefs.

Governance and Oversight of Sustainable Ownership

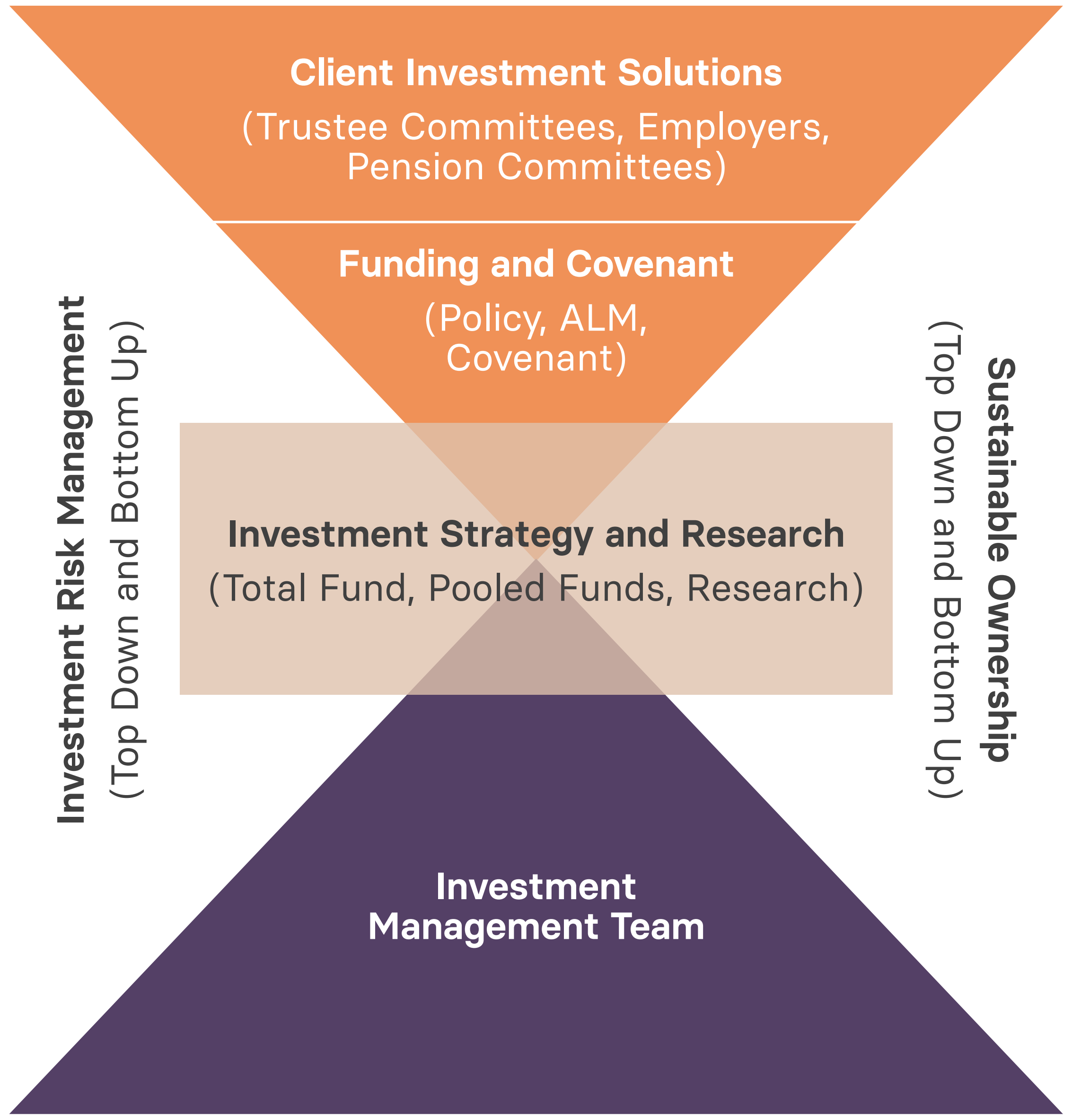
Acting as a long-term, responsible investor is fundamental to the Trustee's investment purpose, beliefs and objectives as well as its mission of paying members' pensions securely, affordably and sustainably. As a result, oversight of our Sustainable Ownership team's activities takes place from the top of our organisation.

The Sustainable Ownership team sits within Railpen in the Fiduciary team. The Fiduciary team brings together those teams which are responsible for supporting the Trustee and the Pensions and Management Committees in their oversight and top-down investment responsibilities. The Sustainable Ownership team's role in the Fiduciary team explicitly links the Trustee's – and in turn members' – needs and expectations to the sustainable investment decisions we make on their behalf, to protect the value of members' savings. The Head of Sustainable Ownership reports to the Chief Fiduciary Officer who in turn reports to the Railpen Chief Executive.

The Sustainable Ownership team works in close collaboration with the Railpen Investment Management team. The Investment Management team reports to the Chief Investment Officer, who reports to the Railpen Chief Executive.



The Sustainable Ownership team is one of Railpen's investment "guardrails", with top-down responsibility for delivering the Trustee's commitment to sustainable investment, while also working closely with the Investment Management team and the Investment Risk Management team to ensure that sustainable investment is considered and applied from the bottom upwards.



The Sustainable Ownership and Investment Management teams work closely and collaboratively across all parts of the lifecycle of an investment, as illustrated below:

- **Before a decision to invest.** The Sustainable Ownership team undertakes analysis and, where necessary, co-engages alongside the Investment Management team with the company to probe any areas of interest or concern. The Sustainable Ownership team will assess and quantify the level of ESG risk and make a recommendation on possible mitigating activities.
- **After a decision to invest.** The Sustainable Ownership and Investment Management teams co-engage with key portfolio companies on stock-specific issues, as well as discussion of Railpen's overall thematic sustainability and governance priorities.
- **Voting recommendations.** These are, where relevant, made and implemented by the Sustainable Ownership team. If the equity is in one of our fundamental equities portfolios, decisions to abstain or vote against go to the relevant Investment Management team portfolio manager for discussion. If the two teams cannot reach a consensus, there is a process for escalation to the Chief Investment Officer.
- **Class Actions.** The Legal team follows a triage process to help assess whether to recommend participation for an Opt-in Class Action. Sustainable Ownership feeds in views regarding any potential reasons not to proceed, including on the grounds of conflict of interest, reputation or impact on our existing engagements. The Chief Investment Officer provides final sign-off, on behalf of the Investment & Risk Committee, on the decision as to whether to participate.
- **Exclusion analysis and decisions.** These are led by the Sustainable Ownership team and discussed with the Investment Management team at regular meetings before going to the Investment & Risk Committee for approval and Asset Management Committee for noting. This is then implemented across both the internally managed portfolio and sent to our external managers where relevant.

The lifecycle of an investment at Railpen

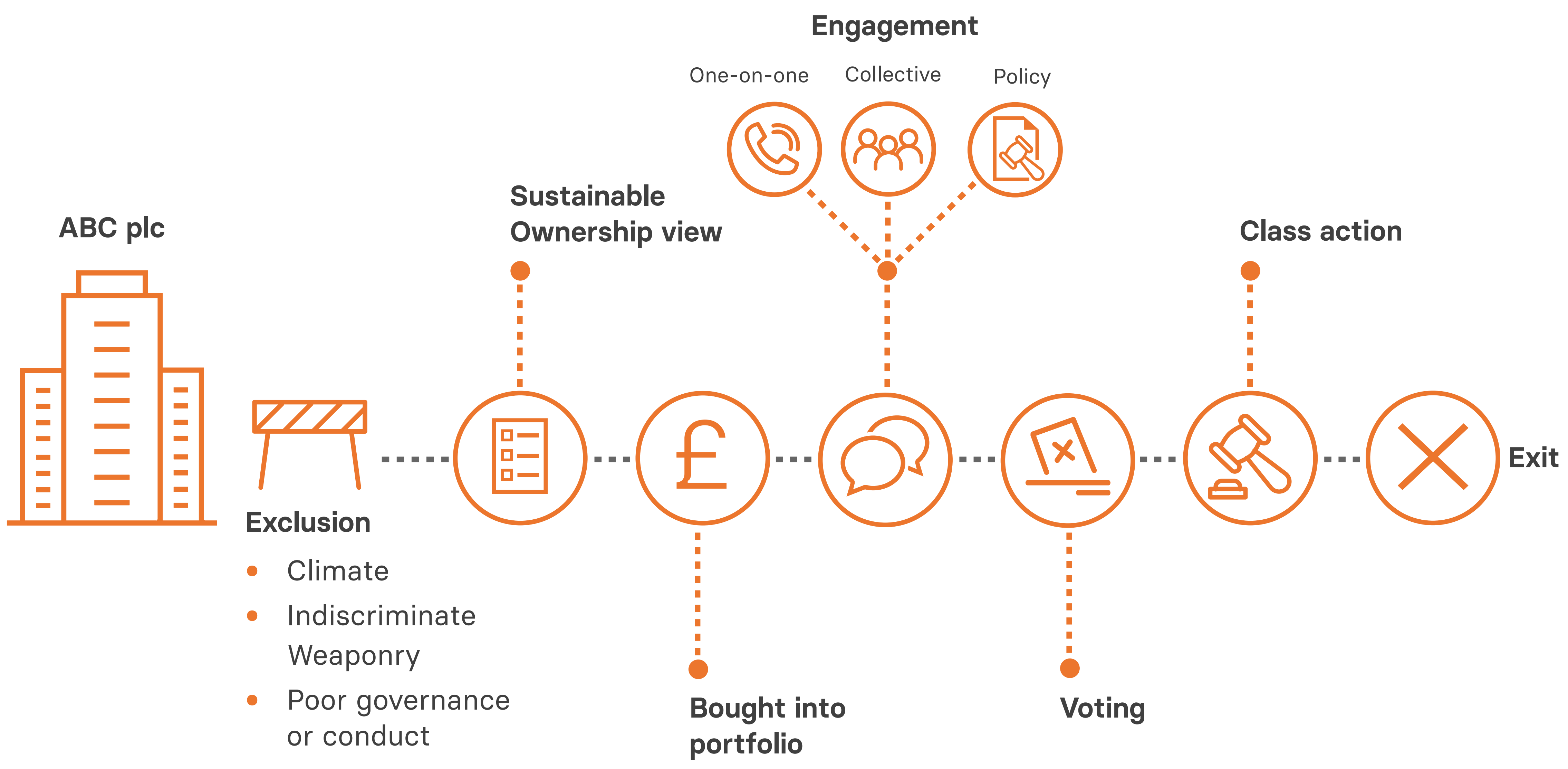


Figure 4 The lifecycle of an investment at Railpen

How our policies and processes are regularly reviewed

Railpen recognises that the expectations for sustainable investment and stewardship are rapidly changing and to remain aligned with our value of being pioneering, we therefore regularly review and update our approach to, and policies governing, engagement and voting. This aligns with Railpen's broader approach to governance, in the wake of the 2021 changes to our Risk function[9]. We deem updated, centrally stored policies and procedures essential to provide a road-map for day-to-day operations, ensure compliance with laws and regulations, give guidance for decision-making and streamline internal processes.

In 2022, the Sustainable Ownership team continued previous work to bring our policies and procedures together in a singular Sustainable Ownership Framework and Procedures document. This allows our policies to be integrated with and centralised alongside those of Railpen colleagues, as well as helping to preserve institutional memory and knowledge. The table below provides an overview of how these policies and procedures were reviewed in 2022.

Review activity (annual)	2021 updates
Global Voting Policy	• New lines on unequal voting rights, mental health, cybersecurity, biodiversity and climate transition plans • Flagging our focus on using all our ownership rights, not just the right to vote
Exclusions Polices • Climate • Indiscriminate Weaponry • Poor governance or conduct	• Q3 2022 review of 'Governance and Conduct Zero Weight' exclusions process identified new quantitative screening metrics and a need to shift exclusions engagements to H2 2023 (please see case study 12) • Automation of indiscriminate weaponry and climate exclusions using ESG data vendors
Engagement targets and objectives	• Reviewed progress against four thematic stewardship priorities: Responsible Technology; Sustainable Financial Markets; Worth of the Workforce; and the Climate Transition • Reviewed provider landscape for stewardship data collection but found no suitable provider, agreed to update the review in 2023
Due diligence processes (external managers)	• Completed roll-out of newly-created Manager Assessment Framework process to private markets external managers

9 *Please see pp.21-22 in our 2021 Stewardship Report for further details of our restructure and implications for risk management.*

How we approach conflicts of interest

Railpen expects all Directors, employees and secondees who provide services to the Company to comply with the content and spirit of the rules set out in its Conflicts of Interest Policy.

It is important that the business environment and investments operations are monitored on an ongoing basis to ensure that all conflicts of interests are captured, particularly that new conflicts of interest are identified, managed and escalated to senior management and the Compliance team where appropriate. Therefore, a conflicts of interest register is kept by the Compliance team and each employee is responsible for reporting items to Compliance for inclusion on the register.

Potential conflicts of interest include, but are not limited to:

- Personal interest in suppliers of services to the company
- Any interest in a business which may be a client of the Trustee Company, and
- Personal Account Dealing in a security where there may be inside information, sanctions in place for specific jurisdictions or other confidential information held by the company

Management and oversight of conflicts are carried out throughout the year and form part of the Compliance Monitoring Programme. On an annual basis:

- Conflicts of Interest policies are reviewed
- The Compliance Team use Railpen Compliance to send out an Initial and Annual Declarations Report for employees to disclose any outside interests or potential conflicts
- A Conflicts of Interest Register is presented to the Railpen Board

Throughout the year, the Compliance team reviews connected conflict management policies concerning inducements, personal securities and investments dealing, and entertainment and gifts and carries out the relevant monitoring tests.

Railpen's work in 2022 built upon steps taken in 2021 to further strengthen and embed a culture of compliance across the organisation[10]. As part of our commitment to continual improvement, this included further clarifying compliance responsibilities across the business, to make it even easier for staff to understand the minimum standards that are expected. This included simplifying documentation and greater visibility of the mandatory compliance training schedule throughout the year. The Railpen Code of Conduct was also simplified, while the Compliance Manual was re-written and shortened, with all essential compliance policies contained in the document.

Last year, we reported that the Sustainable Ownership team would look to work with Compliance in 2022 to fully incorporate stewardship conflicts of interest policies into the new Compliance platform and the Railpen-wide Conflicts of Interest Policy. However, we decided to combine this move with a broader thematic review of conflicts management, which will be undertaken by the Compliance team in 2023. We will report on progress made in next year's report.

10 *You can find more details on these changes in last year's 2021 Stewardship Report.*

Managing potential stewardship conflicts

Railpen recognises the serious risk that poorly managed conflicts can pose to our external fund managers' abilities to act in the best interest of their clients, and to the Sustainable Ownership team's ability to act as stewards on members' behalf.

The table below outlines the most likely potential stewardship conflicts and how Railpen manages these.

<table>
<tr><th>Conflict</th><th>Example</th><th>How Railpen manages it</th></tr>
<tr><td>If an individual in the Railpen team, who could have an operational influence on stewardship activity, holds a role at or is connected to a company in which we have an equity or bond holding.</td><td>A member of the Sustainable Ownership team is a trustee of a pension scheme whose sponsoring employer is a portfolio company of ours.

If we decided to vote against this sponsoring employer, the individual would potentially be in a position to influence the decision.</td><td rowspan="2">Individuals must identify and declare their conflicts on a rolling basis, or at least annually, to the Head of Sustainable Ownership and Compliance.

The company is placed on a watchlist and the individual is barred from participating in engagement and voting decisions pertaining to that company.</td></tr>
<tr><td>If an individual at Railpen has a personal or business relationship with a relevant individual at a company in which we have an equity or bond holding or into which the Sustainable Ownership team is undertaking due diligence in advance of investment.</td><td>A senior member of the Railpen team is the spouse or partner of the Company Secretary at one of our existing or potential portfolio companies.

If we decided to vote or engage in a way that was deemed undesirable at the portfolio company, we could come under pressure to change our decision from the individual concerned.</td></tr>
<tr><td>If we have an equity or bond holding in a company that is the sponsoring employer of one or more sections of the railways pension schemes.</td><td>The ultimate parents of several train operating companies (TOCs) are publicly listed and may well be portfolio companies.

All Railway securities have been sold from the internally-managed fund and are on the Compliance Restricted List so no further BUY can be made.

However, we still have exposure to sections through our pooled passive fund, where we have negotiated voting rights on UK holdings.

If we decided to vote in a way that was deemed undesirable at the portfolio company, we could come under pressure to change our decision.</td><td>Our voting policies apply to all listed companies, including without exception those that participate as employers in railway industry pension schemes.

These companies are identified and placed on a watchlist. If we vote against management at an AGM of a company which is a sponsoring employer, we will notify our Chief Fiduciary Officer and the Head of the Client Investment Solutions team, but only after the vote has been implemented.</td></tr>
</table>

Continues on next page

Conflict	Example	How Railpen manages it
If we have an **equity or bond holding in a company that is a tenant** in our internally managed Property portfolio.	Tenants in our internally-managed Property portfolio may well be commercial companies and portfolio holdings. If we decided to vote in a way that was deemed undesirable at the portfolio company, we could come under pressure to change our decision.	Our voting policies apply to all listed companies, including without exception those that are tenants in buildings in our Property portfolio. These companies are identified and placed on a watchlist. If we vote against management at an AGM of a company which is a tenant, we will notify the Head of Property, but only after the vote has been implemented.
If our **external managers have a stewardship conflict** that prevents them from undertaking stewardship effectively on our behalf.	The stewardship teams at the external managers may have a personal relationship with a portfolio company, or they may manage assets for a portfolio company's pension scheme. This means the team may come under commercial or personal pressure to change their voting or engagement decision at the portfolio company.	We expect our external managers to report to us at least annually on instances of stewardship conflicts, using the PLSA's Vote Reporting Template. We also review our managers' conflicts policies at the due diligence stage and during our (at least annual) Manager Assessment Framework review. Where we believe a conflict has not been identified or managed appropriately, or that a robust policy is not in place, we will seek to engage with the manager. Where we believe that a manager's activities or policy on conflicts presents an unmanageable risk to how effectively they undertake stewardship on our behalf, we will escalate to the Public Markets manager monitoring team and consider how best to take forward.

Case study 6: **Company A | Remuneration and our approach to conflicts of interest**

Issue
Some of the sponsoring employers of sections of the Railways Pension Scheme are also listed UK companies. Although we do not have any direct, internally- and actively-managed holdings in these companies, we do have some exposure through pooled, passive vehicles managed externally. As Railpen has negotiated the voting rights on UK holdings in these pooled vehicles, we exercise our voting rights at some sponsoring employers' AGMs.

These companies are placed on a watchlist, so that we are alerted when an AGM is coming up. Our conflicts process means we are prohibited from discussing our voting decisions on these companies in advance of implementation with our client-facing colleagues.

In the 2022 AGM season, a remuneration resolution at one of our sponsoring employers was flagged to us as requiring a decision. In assessing remuneration approaches at this company, we identified two issues: that the quantum of the CEO and other executives' remuneration was high, and that the CEO was in receipt of a final salary pension scheme with a high level of pension contributions compared to peers and the rest of its employees.

Objective
We needed to take a decision on how to vote on the remuneration report, which is our opportunity to express our views of a company's remuneration arrangements. The Sustainable Ownership team takes the voting decision that we believe is most likely to influence improvement on financially material ESG issues at portfolio companies, in line with our delegated responsibility for stewardship in the best interests of members of the railways pension schemes. We bring this same approach to those voting decisions at companies on our sections watchlist.

Approach
As outlined in our Voting Policy, fair and proportionate remuneration arrangements for senior executives is a material issue at portfolio companies, as excessive quantum and pay practices which are not aligned with the approach taken to remunerating the broader workforce can de-motivate employees and reduce trust, ultimately impacting financial performance. For this reason, Railpen's Voting Policy has specific instructions to vote against a resolution at a company where pay is excessive, poorly structured or unfair. This includes specific provisions to vote against companies where senior executives receive a pension that is much better than those of the wider workforce.

Outcome and next steps
After discussion within the Sustainable Ownership team only, we voted against the remuneration report in light of concerns about both the structure and the quantum.

The usual conflicts process was then followed. This consists of a post-implementation notification to our Chief Fiduciary Officer and the Head of the Client Investment Solutions team, where we have voted against management at an AGM of a company that is a sponsoring employer.

In addition, the decision was flagged to the External Relations and Communications team, as our voting records for all holdings are disclosed on our website.

Internal sustainable ownership resources

The internalisation of Railpen's investment management function means that the majority of Railpen's assets are managed by an expert in-house Investment Management team, which comprises individuals with expertise across fundamental and quantitative equities, corporate and sovereign debt, private markets, real estate and infrastructure.

Railpen also has a dedicated in-house Sustainable Ownership team of seven individuals, who collectively bring the appropriate level of skills, knowledge and understanding to be able to deliver on the Trustee's commitment to sustainable investment and delivering for members.

Individuals across the Investment and Sustainable Ownership teams offer a diverse range of backgrounds and perspectives. Pertaining to Railpen's sustainable investment work specifically, the teams' backgrounds span ESG investment analysis and research, public policy and advocacy, social policy and anthropology, thematic engagement, investment management and pension trusteeship. Direct organisational experience also varies widely, and individuals have experience of asset management, academia, policy and regulatory bodies, and DB, DC and public sector pension schemes.

In 2022, we began recruitment for a new analyst, to support the Sustainable Ownership team in taking forward Railpen's engagement, integration and climate priorities. We were keen to find someone whose background would further enhance the diversity of skills and experiences of individuals across the Sustainable Ownership team, and in January 2023 were delighted to appoint an individual who is a CFA charter holder and whose background covers investment consultancy, responsible investment and actuarial advice.

The importance of training and development

Railpen's culture is one of continued learning and progression for all individuals, regardless of seniority or length of tenure. We recognise that this is necessary in order to ensure that Railpen continues to live up to its core values and to act as a leading UK asset owner. We also continuously train employees to ensure we abide by our regulatory standards and procedures.

This culture is mirrored in the seriousness with which the Investment Management, Fiduciary and Sustainable Ownership teams take the responsibility to ensure all relevant individuals are up to date on the key issues in a rapidly evolving market. In the Sustainable Ownership team, specifically, a core element of each individual's performance assessment and appraisal is how well the individual has behaved with a "high degree of analytical rigour". This in turn, requires significant investment in ongoing support and training.

In 2021, the Fiduciary team recognised that an area for development was career planning for individuals across Railpen, and a review was particularly urgent given plans for growing the team. Members of the Fiduciary and HR teams therefore worked together to create a 'Career Planning, Learning and Development' (CPLD) framework, incorporating feedback from across the team to do so.

Examples of training activities undertaken by the Sustainable Ownership and Investment Management teams in 2022 include:

- studying for the CFA UK Investment Management Certificate (IMC), the SASB Fundamentals of Sustainability Accounting (FSA) Credential and the CFA UK Certificate in Climate and Investing (CCI)
- participating in workshops and teach-ins on key active ownership or ESG issues
- taking the School of Systems Change in Finance Course (on systemic risk and change)
- attendance at conferences organised by external providers (e.g. MSCI, the IA, the PLSA)
- e-learning modules on ESG issues such as modern slavery

This is supplemented by activities to create a learning culture across the teams, including through:

- online forums for dedicated discussion of the latest ESG research and analysis
- a dedicated 'focus issue' agenda item at each weekly team meeting, where an individual either from the Sustainable Ownership team or the wider organisation brings an issue to discuss, and
- A commitment from the senior team members to lead by example with weekly attendance at webinars and training sessions

The Sustainable Ownership team holds regular workshops with its Investment Management and Fiduciary team colleagues. One example is the Climate Working Group. It is co-chaired by the Chief Investment Officer and Head of Sustainable Ownership and consists of five individuals from the Investment Management team and five individuals from the Fiduciary team. It continues to be a key forum in 2022 for discussion and updates on issues such as integrating climate risk into covenant assessments and the role of climate solutions in a portfolio.

In 2022, the Sustainable Ownership team also worked with Internal Communications to hold a structured 'Lunch and Learn' for all Railpen colleagues, providing an overview of our work as well as a deep-dive on our Investor Coalition for Equal Votes (ICEV)[11]. The session was attended by more than 100 people and received 100% 'excellent' or 'good' feedback. We hope to hold another session on different aspects of our work in 2023, which will help ensure a broad range of Railpen colleagues understand our activities in this space.

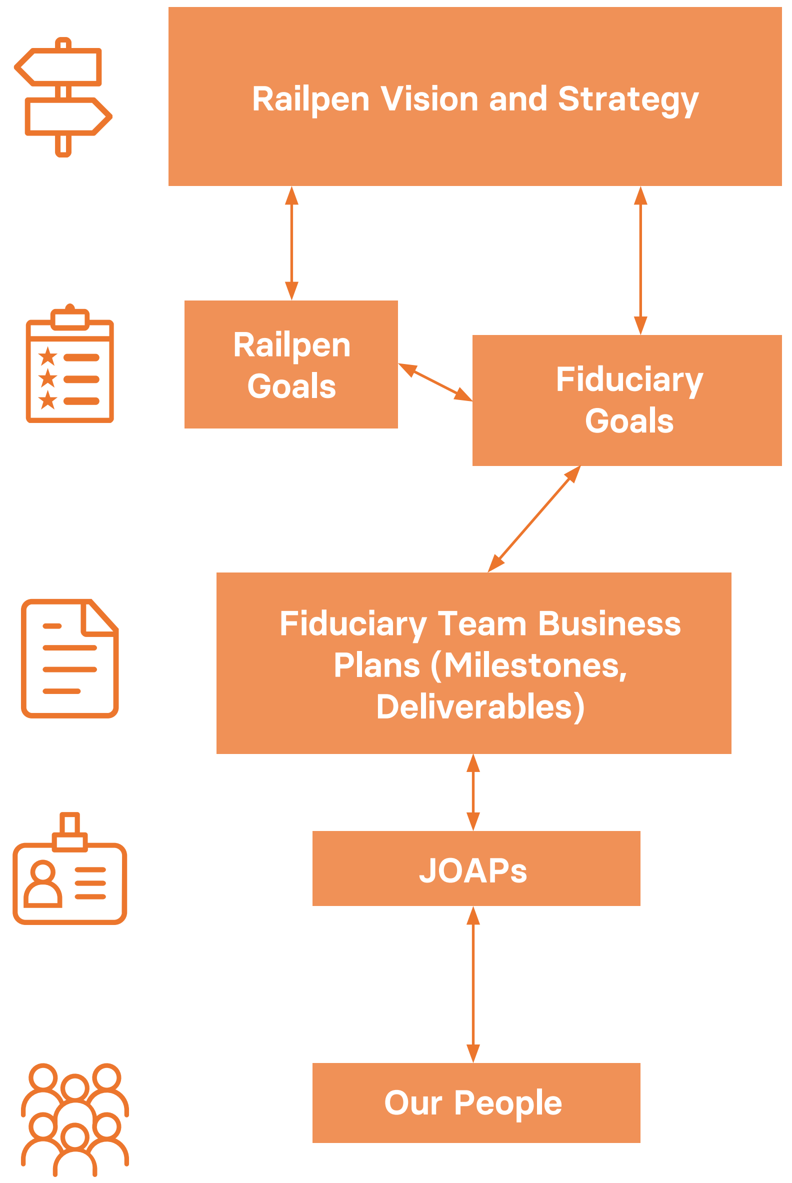
[11] *Please see case study 25.*

How and why Railpen teams are incentivised

Railpen views incentivisation and reward holistically and works hard to recruit, retain and support expert talent across the organisation. This is in line with the Trustee's Investment Belief narrative that we:

"...cannot deliver the best outcome for members on our own. Our hybrid internal/external model ensures investment decisions are aligned to schemes' needs and that costs are managed, while maintaining sufficient coverage of the investment universe by well-resourced internal investing specialists. Our sophisticated and collaborative investing culture fosters innovation. Our sense of purpose and investment approach allows us to attract and retain the high-quality talent needed to execute on our investment philosophy."

The performance of every individual at Railpen is regularly assessed throughout the year against the accountabilities, behaviours and priorities set out in their 'Job on a Page' (JOAP). The graphic below demonstrates how JOAPs are linked to Fiduciary team deliverables, which in turn feed into Fiduciary and then Railpen goals that are designed to help us achieve our purpose of providing value for members in alignment with the Trustee's investment objectives.



Linked to this individual performance assessment is a personal bonus programme, and the Sustainable Ownership team is eligible for participation in this programme. Like their colleagues, Sustainable Ownership team members are assessed against a number of accountabilities, behaviours and priorities in their JOAP, including individual delivery of ESG initiatives.

The incentivisation of the Investment Management team is aligned with long-term fund investment performance, to ensure that portfolio managers are not incentivised to pursue short-term performance objectives. This aligns with Railpen's purpose and mission as a responsible investor.

The updated Trustee Investment Beliefs highlight the centrality of sustainable ownership to Railpen, and as a result, each individual at Railpen is involved to some extent in our work. As sustainable investment continues to integrate across Railpen, a growing number of colleagues outside the Sustainable Ownership team have some element of sustainable investment responsibility written into their job descriptions and objectives, performance against which determines the level of variable pay received. For instance, in 2022, individuals in the Railpen Property team had sustainable ownership explicitly incorporated into their accountabilities and behaviours in their Job on a Page.

Railpen's structured development programme also includes regular conversations around the support individuals need from Railpen to meet their accountabilities and progress in their career. This increasingly includes sustainable investment training and education as discussed previously.

We recognise that incentivisation is not just important for alignment purposes, but that fair pay approaches can also be a powerful factor in ensuring a fulfilled, motivated and engaged workforce. The case study below outlines Railpen's work on a cost of living payment in 2022.

Case study 7: **The 2022 cost of living payment**

In December 2022, Railpen awarded colleagues earning a basic salary of £40,000 or less a one-off cost of living payment of £1,200 (outside of the usual annual pay review at Railpen). As a responsible employer, Railpen believed it was the right thing to do to offer help to those colleagues who needed it the most.

Extensive thought was given to the appropriate threshold for the support, to ensure the help was meaningful and targeted towards those most likely to need it. Information considered in agreeing the threshold included assessing existing practices by peer companies and the government definition of fuel poverty i.e. where a household spends more than 10% of earnings on energy (implying a threshold of £33,000). Setting a threshold above this definition enabled Railpen to cast the net further and include more colleagues.

The HR team also discussed this issue with individuals in Railpen's Sustainable Ownership team, in light of our work with portfolio companies on fair pay arrangements and what we consider to be good practice during the current cost of living challenges.

The one-off cost of living payment matters to our stewardship work in two main respects. Firstly, it underscores the collaborative and compassionate culture at Railpen that helps support and motivate all employees to act in alignment with our values, in order to secure our members' futures. More specifically, it supports the Railpen stewardship team in credibly articulating to portfolio companies the kinds of fair pay support and practices we want to see.

It should be noted that the one-off payment is just one of the ways in which Railpen aims for a fair reward system – particularly in light of the cost of living challenges. Other initiatives include the Railpen Living Wage, to ensure that all colleagues have an appropriate minimum level of reward, and a broader pay review process, which prioritises those on the Railpen Living Wage first.

How effectively the Railpen structure supports stewardship

In light of the rapid development of the sustainable investment landscape, the Sustainable Ownership team needs clear lines of accountability and a framework that supports effective decision-making, aids collaboration across the organisation and helps us identify and manage financially material ESG risks across the portfolio.

The 2021 restructure, rebrand and associated changes, which aim to give Railpen employees the necessary accountability lines and framework, are now more deeply embedded across the organisation. While the full impact will only become clear in future years, we think in 2022 these structures have been effective in supporting the impactful engagement, thoughtful voting and scrutiny of third-party service providers outlined elsewhere in this report.

Additionally, we believe the Railpen structure and approach to incentivisation supported us to do the following in 2022:

- Respond rapidly to market and policy developments, including time-critical issues and decisions, such as whether to participate in some class actions and our approach to Russia – from a stewardship perspective – in the wake of its invasion of Ukraine
- Credibly advocate with portfolio companies on the need for fair pay arrangements in the wake of the cost of living challenges (for instance, several votes against companies on fair pay grounds during 2022, and the update to our 2023 Global Voting Policy as outlined in case study 29). We knew we could do this with comfort in light of the steps Railpen had taken to support colleagues with a one-off cost of living payment (see case study 7)
- Deepen our focus on the need for robust internal controls at portfolio companies, including an effective Internal Audit team, and creating a culture of compliance – this included our response to the FRC's 2022/2023 consultation on the Draft Minimum Standard for Audit Committees[12]

The current approach in terms of lines of accountability and collaboration with both Fiduciary and Investment Management colleagues continues to be effective in enabling co-ordinated activities with portfolio companies and the achievement of positive impact in members' best interests.

[12] *As with all our responses to policy consultations, this can be found online at* Railpen's response to FRC Audit Committee Standards.

SYSTEMATIC ESG INTEGRATION

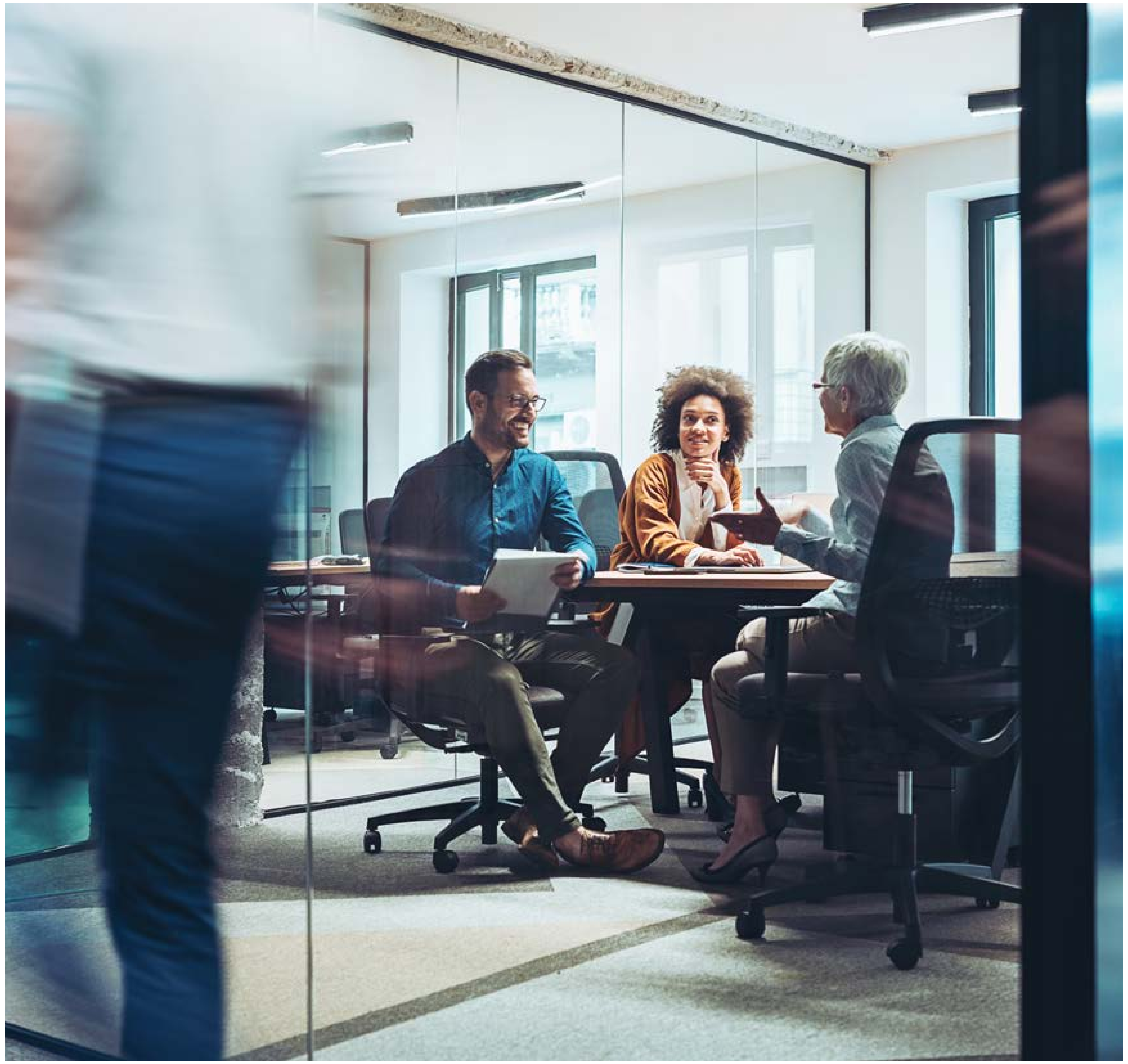
As stated within our updated Trustee Investment Beliefs, the Trustee believes that: "Environmental, social and governance (ESG) factors affect corporate financial performance, asset values and asset-liability risk. Well-informed and financially material ESG analysis, as part of a holistic investment process, supports the identification and ultimately the pricing of ESG risk and opportunity."

We define ESG risk as the potential for financial loss resulting from ESG-related factors. ESG risk can both affect business fundamentals and impact the wider market. The magnitude, nature, timing, and likelihood of the ESG risk associated with an asset or portfolio of assets can be approximated by assessing gross risk and the quality of mitigants in place now or in the future.

Working together with the Investment Management team, the Sustainable Ownership team's analysis of a particular company can result in a number of decisions:

- To invest (or not) in the company
- To hold and engage to improve ESG performance, or
- To sell a security, where the ESG risk proves to be unmanageable or unrewarded

Sustainable Ownership assessments focus on the evaluation of material ESG risks, which are identified using the SASB Materiality Map as a starting point, analysis from our research providers and company reports, alongside our own professional judgement. Assessments take into account evolving drivers of ESG risk, including regulatory action, policy shifts, changing consumer preferences, and supply chain dynamics. Two example assessments that led to a decision to invest can be found in case studies 10 and 11.



Case study 8: **Publishing the 'Why We Integrate ESG' paper**

Issue
Pension regulation for ESG analysis has evolved significantly over the last decade, from requirements to avoid screening and thereby maximise the diversification of investment universes, to the mandated consideration of financially material ESG factors.

The Trustee's ESG-related Investment Belief reflects these regulatory developments as well as the evidence demonstrating the financial materiality of ESG factors. However, it was felt that a concise and up-to-date summary of the evidence base would be helpful for the Trustee, members and others at Railpen in providing a well-informed rationale for Railpen's integration of ESG into our investment processes.

Objective
The paper aimed to frame our research objectives in the context of the Trustee's fiduciary duty, explaining why Railpen believes high-quality ESG analysis to be relevant from a financial perspective.

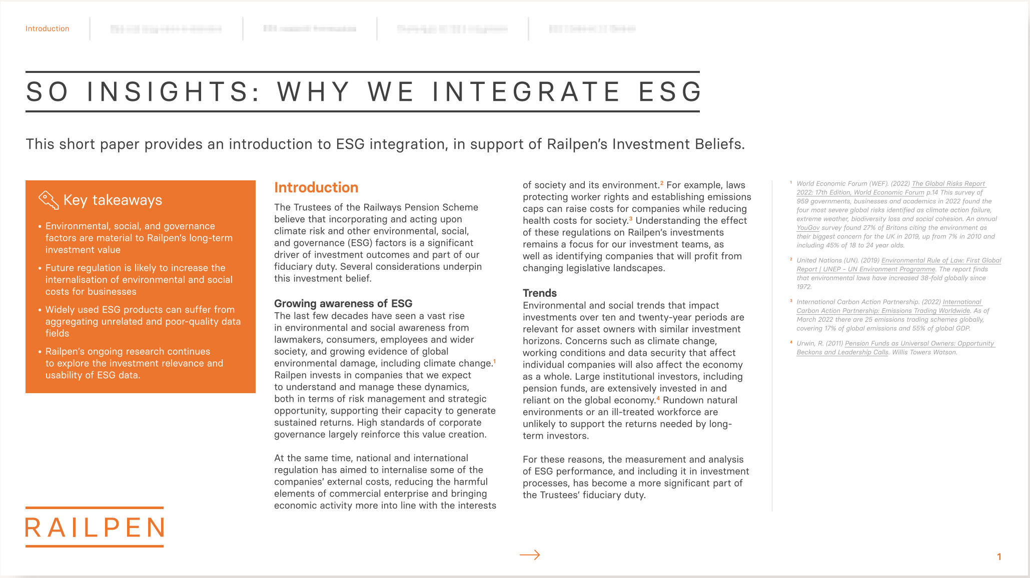
We sought to build on current industry and academic thinking around how company management of ESG factors can impact its long-term investment return. We also considered examples of data points, both quantitative and qualitative. We felt that this would be helpful in demonstrating Railpen's approach and guiding key stakeholders to consider how the three pillars of ESG reflect different aspects of company performance.

Approach
The Sustainable Ownership team monitors relevant industry publications and research developments on an ongoing basis. The paper drew on recent research to demonstrate the role of ESG analysis in investment decision-making, exploring how information on a company's corporate governance, environmental performance and social/stakeholder capital can be used alongside traditional financial analysis to inform investment decisions.

We also examined the challenges faced in ESG integration, specifically the quality of data, the pitfalls of aggregating unrelated data points and the accountability of research providers.

Outcome and next steps
In late 2022, the Sustainable Ownership and Investment Management teams published their short paper. The paper has received good feedback from key stakeholders so far, and will be used as a basis for further communications to members on sustainable ownership issues (please also see case study 5).

Railpen's ongoing research continues to explore the investment relevance and usability of ESG data. Therefore, the Sustainable Ownership team invites feedback and research ideas from our stakeholders as we move forward with our understanding of ESG and long-term performance.

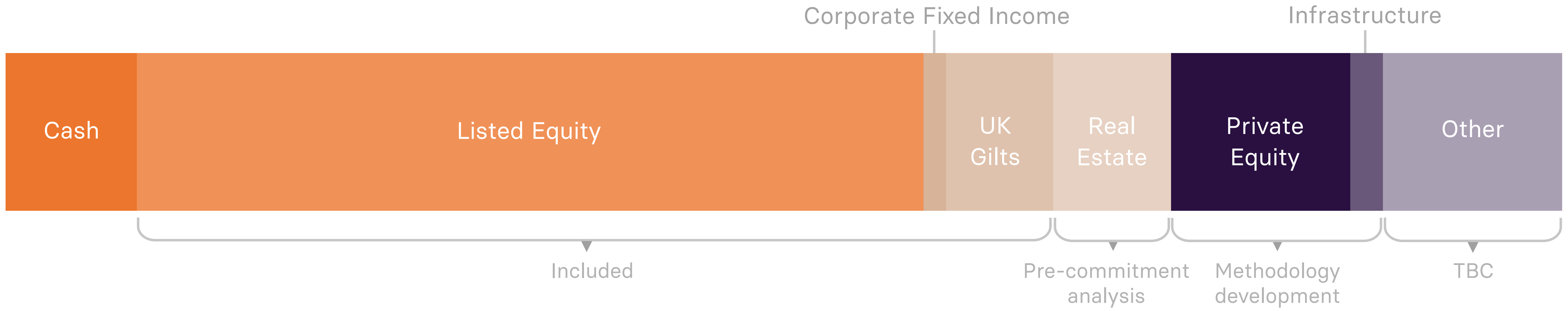


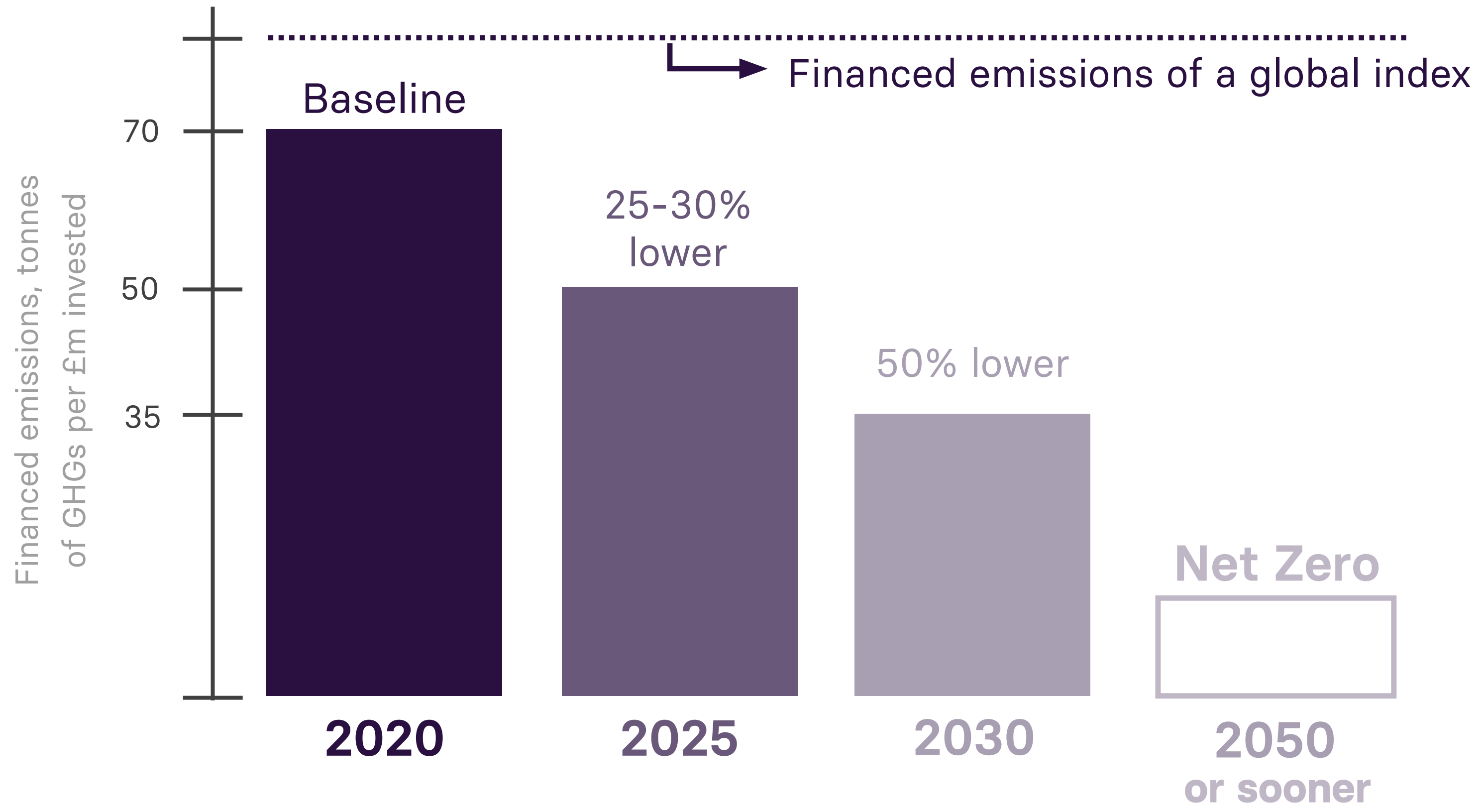
Our roadmap to a net zero portfolio

A long investment horizon exposes a pension scheme to societal and systemic risks, such as climate change. These risks are growing and need to be managed. Therefore, in 2021, Railpen published a detailed roadmap as part of announcing our commitment to be net zero by 2050 or sooner. The roadmap, which focuses on real-world decarbonisation and draws on the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) covered both the investment portfolio and the emissions associated with our corporate footprint.

Asset classes covered within the Net Zero Plan include listed equities, corporate fixed income and sovereign bonds, which make up approximately 65% of the investment portfolio (excluding cash).

Our Net Zero Plan is based on four pillars, as defined in the NZIF: governance and strategy, targets and objectives, asset class alignment, and policy advocacy and market engagement. We aim to deliver our targets and objectives by improving the Net Zero alignment of our underlying investments. Our priority is to achieve decarbonisation in the real economy by engaging with the companies in which we invest. To enable this, in 2021 we developed a climate risk assessment framework and our first Net Zero Engagement Plan.





Focus on real world decarbonisation

CO_2

Collaboration and continual improvement

IIGCC The Institutional Investors Group on Climate Change
Climate Action 100+
Transition Pathway Initiative

Alignment targets

2040: 100% of AUM in 'material' sectors either already net zero, aligned to net zero, or aligning to net zero

Engagement targets

Today: 70%* either aligned to net zero or under engagement

2030: 90% either aligned to net zero or under engagement

Climate solutions

Increased investment in the climate solutions required to meet net zero by 2050 or sooner

**Measured by "Financed Emissions"*

CRIANZA (Climate Risk And Net Zero Alignment) is a proprietary framework and tool developed by Railpen to assess and score the extent of climate risk and net zero alignment at individual companies, and hence in the portfolio at large. Currently, CRIANZA is used to assess companies within scope of Railpen's Net Zero Plan, but it has been designed such that it can be applied across asset classes and to analysis of sponsoring employers in the future.

The framework incorporates sector-specific features for net zero alignment, physical, and transition risk assessment. It can be used for risk management, regulatory reporting, and for climate stewardship activities. For example, identifying gaps in a company's current practice forms a basis for discussion and can suggest how to direct votes at the AGM. The objective of the assessment is to enable a feedback loop between company analysis and stewardship, which should ultimately improve company alignment over time[13].

In early 2022, we focused on applying the CRIANZA framework to key emitters and reviewing our Net Zero Engagement Plan. Case study 9 demonstrates how our initial assessments shaped engagement objectives with a peer group of retailers held in our public markets portfolio. Further examples of climate-focused stewardship can be found in the Impactful engagement and Thoughtful voting sections of this report.

[13] *For further details on our CRIANZA framework, refer to pages 48-49 of the* Railway Pension Scheme's 2021 TCFD Report.

Case study 9: **Listed equity | Applying the CRIANZA framework to a peer group of retailers**

Issue

The retail sector contributes to the financed emissions within Railpen's portfolio, particularly when taking into account Scope 3 emissions generated across companies' extensive supply chains. Scope 3 emissions are largely considered the most challenging to tackle due to complexity of decarbonising supply chains and low data availability.

We are conscious that the retail sector is highly competitive, so there is greater potential for companies to lose market share if peers are better prepared to address pressure on margins from emerging carbon tax regulation and potential fuel price increases. Equally, there are opportunities to seize market share if companies pre-empt growing consumer demand for low-carbon products, particularly by differentiating through their own-brand lines and driving innovation with suppliers.

Therefore, the four highest emitting retailers (by financed emissions) held within our public markets portfolio were prioritised for CRIANZA assessment and targeted in our Net Zero Engagement Plan. These retailers were Walmart, Target, Ahold Delhaize, and Kroger.

Objective

Through CRIANZA assessments, we aimed to deepen our understanding of sector-wide and company-specific climate risks, alongside the quality of disclosure on climate transition planning. We used these insights as a basis for engagement with companies to drive improvements in the management of climate risk within our portfolio, ultimately increasing the portfolio's Net Zero alignment.

Insights gained

Key risks:

- Physical impacts of climate change on extensive supply chains, exposing companies to longer lead times, disruptions to operations, and higher raw commodity costs
- Physical damage to stores from extreme weather, albeit somewhat mitigated when operations are diversified across continents
- Costs of replacing refrigeration units that use hydrofluorocarbons (HFCs), which are associated with greenhouse gas (GHG) leakages
- Where managed in-house, costs of transitioning to an electric transportation fleet and ensuring appropriate charging infrastructure is in place
- Shifting to renewable energy sources for stores and warehouses
- Costs of developing or adopting circular packaging to reduce long-term reliance on the petrochemical industry for plastics

Strengths

When assessing the four retailers' disclosed climate transition plans, all of the companies reported on their Scope 1, 2 and 3 emissions, alongside identifying material climate risks to their businesses. With the exception of Kroger, all had net zero commitments and aligned their disclosures with TCFD framework. Most had governance structures around climate change in place, often with a Board member nominated for climate oversight. We found that Target and Walmart had the most robust approach to reducing Scope 3 emissions.

Weaknesses

As identified across other sectors, there was poor disclosure on capital allocation and limited incorporation of climate risks into financial accounts. There was also a low level of disclosure on 'green revenues' derived from plant-based products, and on strategies to shift to low-carbon products.

Outcome and next steps

Following our assessments, outreach was initiated with all of the retailers. Our aim was to seek clarity in areas of high risk and poor disclosure, which in turn allowed us to refine the initial objectives of our engagement. We were also able to share our insights with the companies, including peer benchmarking and areas that fell below our expectations.

Subsequently, we were pleased to see that Ahold Delhaize published an updated interim Scope 3 emissions reduction target and provided additional detail on transition planning, with specific targets around low-carbon products.

We will continue to iterate our CRIANZA assessments, with a focus on key risks and weaker areas of disclosure. This process will enable the prioritisation of retailers targeted for engagement and escalation going forward.

ESG integration by asset class

Our ESG integration methods differ by asset class, as described in the table below. A key area of difference is in the disclosure and availability of company ESG data, which limits the extent to which in-depth and accurate ESG analysis can take place in some asset classes. The structure of the investment arrangements also shapes how and the extent to which we can undertake ESG integration.

In 2022, we continued to deepen our approach to ESG integration across asset classes beyond listed equity. Prioritised asset classes were infrastructure and private markets, as investments within these portfolios:

- are often illiquid, which means that identifying sustainability risks prior to ownership is crucial as we will potentially own these assets – and be exposed to any associated risks – for a significant period of time, and
- frequently come with ownership rights such as seats on the board. This gives us a powerful opportunity and responsibility to be a good steward of these assets.

Case studies 10 and 11 offer further insight into specific examples of pre-investment ESG analysis of opportunities in renewable energy and a private start-up fund.

Assets class	Integration
Listed Equities	• Sustainable Ownership assessment carried out for all companies in our Fundamental Equities portfolio (FE). We will reflect any concerns from our assessments in our voting and engagement approach. We also use intelligence from engagements to inform our assessment. • Stock-specific engagement focused on fundamental equities holdings, and thematic engagement focused on holdings in our quantitative strategies (QS) portfolio • Exclusion of some companies on the grounds of climate, cluster munitions and governance and conduct • External manager monitoring, incorporating assessment of ESG integration, active ownership and climate change capabilities • Engagement, either direct or through CA100+ with key portfolio emitters
Fixed Income	• Exclusion of some companies on the grounds of climate and indiscriminate weapons • External manager monitoring, incorporating assessment of ESG integration, climate change and active ownership (the last for corporate bond mandates only) • Engagement with our fixed income managers regarding key emitters in our corporate bond portfolio
Private Markets	• Sustainable Ownership assessment carried out for all transactions • External manager monitoring • In-depth engagements and relationship-building on co-investments, particularly where we have equity ownership
Property	• The Property Sustainability strategy integrates ESG into ongoing asset management, including tenant engagement • 2022 focus on improvement of data gathering on ESG issues, particularly carbon emissions • External manager monitoring
Infrastructure	• Sustainable Ownership assessment carried out for all transactions, including site visits where feasible • External manager monitoring • Exclusion of some projects on the grounds of climate and indiscriminate weapons

Case study 10: **Real assets investments | Pre-investment ESG due diligence of Bracks solar farm**

Issue

In late 2022, Railpen acquired Bracks solar farm from BayWa r.e., the global renewable energy company. Bracks is a 30 MWp project, which will generate clean energy to supply approximately 8,000 homes.

This acquisition marks the second deal between Railpen and BayWa r.e., the first of which was the purchase of Tralorg Wind Farm in 2019. These acquisitions expand on Railpen's broader renewable energy investments including our co-investments in Margam and Sleaford biomass renewable energy plants, and the recent investment in the UK battery energy storage platform, Constantine Energy Storage. This demonstrates Railpen's commitment to achieve Net Zero across our investment portfolio. As Alena Antonava, Investment Manager at Railpen, commented: "Our continued investment in renewable energy also supports the UK government in achieving its decarbonisation targets." [14]

Objective

Notwithstanding the project's positive impact, we recognise that ESG issues must be assessed to mitigate potential risks in delivering secure and stable income to our scheme members. Therefore, the Sustainable Ownership and Long-Term Income Fund (LTIF) teams implemented our ESG risk assessment process prior to investment.

Approach

Materiality Map
As a first step, we designed a Materiality Map for the solar photovoltaic (PV) sector to help identify which ESG issues should be reviewed and assessed as part of due diligence for the deal. The Materiality Map considered financial impacts and stakeholders' perceived importance of ESG issues. We used inputs such as the SASB Standard for Solar Technology & Project Developers, the GRESB Infrastructure Asset Materiality and Scoring Tool, relevant regulatory documents, and academic research

Key issues identified included:

- Biodiversity
- Corporate governance
- Cybersecurity
- End-of-life treatment
- Health and safety
- Physical climate risk
- Responsible procurement

Analysis
Taking into account the project's specific features, we examined the risk level and mitigants in place for each issue. For example, we noted that the supply chains of solar PV panels are highly concentrated and exposed to socio-environmental controversies, rendering them vulnerable to disruption and shortages. Potential limitations on the availability of components could raise maintenance costs, and reduce energy production throughout the project's in-use phase.

Over 80% of solar cell manufacturing takes place in China, and the country plays a dominant role in the production of the key materials such as solar-grade polysilicon. Approximately 54% of Chinese polysilicon is processed in the Xinjiang region, where the Muslim Uyghur population has been subject to forced labour.[15] As highlighted in a 2021 report, suppliers located in the region may have been incentivised to employ members of the Uyghur population under coercive conditions.[16]

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[14] *Quoted from Railpen news, 2023*

[15] *Data sourced from the US Department of Labour, 2020*

[16] *Sheffield Hallam, In Broad Daylight: Uyghur Forced Labour and Global Solar Supply Chains, 2021*

Continues from previous page

Case study 10: **Real assets investments | Pre-investment ESG due diligence of Bracks solar farm**

Railpen expects its portfolio companies, including those directly held within LTIF, to operate within the parameters of widely accepted business practices, such as the Ten Principles of the UN Global Compact (UNGC). This includes UNGC Principle 4: the elimination of all forms of forced and compulsory labour.

Engagement
As the risk of forced labour is present across the solar PV sector, we engaged with the project's developer and solar panel manufacturer to understand their approach to responsible procurement.

Using external guidance and learnings from Railpen's Worth of The Workforce thematic engagement priority, we reviewed the policies and practices in place to ensure forced labour risks were appropriately managed within the supply chain. Through dialogue, we gained further transparency around the manufacturer's approach, including auditing, whistleblowing, and employee engagement mechanisms.

Outcome and next steps

Following our assessment process, we concluded that ESG risks were sufficiently mitigated to proceed with this investment. Despite the manufacturer's efforts, we acknowledge that China remains a high-risk jurisdiction for forced labour. Therefore, the same level of due diligence will be expected when procuring components going forward.

In Q1 2023, we began designing Key Performance Indicators for the project to enable ongoing monitoring of key risks, including responsible procurement. We also look forward to our continued working relationship with the experienced team of Bayware.

Case study 11: **Private markets | Pre-investment ESG due diligence of a start-up fund**

Issue

In 2022, Railpen was presented with the opportunity to a make a commitment to a new General Partner's first US lower/mid-market buyout fund. The start-up fund targets smaller companies that specialise in niche business areas with scope for consolidation in areas such as road markings, precast concrete, commercial vehicle upfitting, and metal fabrication, alongside overhead door repair and distribution.

Objective

As with all investment opportunities in the private markets portfolio, we assessed this fund with the intention of ensuring ESG risks are identified and appropriately managed.

Approach

The Private Markets and Sustainable Ownership teams engaged at an early stage in the deal lifecycle to ensure sight of financially material ESG risks during due diligence. The scope of the initial assessment was agreed between the teams, considering the perceived level of ESG risk posed by the opportunity.

Whilst ESG risk advice is provided independently by the Sustainable Ownership team, the process is collaborative with a high degree of sharing of information and access to management. Following an initial assessment, we spoke to senior executives at the fund to further understand how key ESG factors were integrated into its investment process.

Human capital management
Railpen believes that the extent to which management ensures its workforce is engaged, motivated and supported offers an important insight into companies' corporate culture, as well as being a vital ingredient for sustainable financial performance. We were particularly keen to probe this, in light of the general reputation of private markets managers' approach to human capital.

We were reassured by the fund's commitment to keen consideration of human capital management issues at its portfolio companies, including its focus on being "net hirers, not firers". There was also an acute awareness of the importance of diversity and improving female representation at senior levels. Leading by example, 50% of the fund's functional divisions are led by women.

Decarbonisation
The fund's targeted sectors are exposed to climate transition risks due to their emission intensity. Therefore, we considered strategies that could be employed to reduce GHG emissions at the fund's portfolio companies. These included the use of more efficient equipment, renewable fuels, carbon sequestration, and clinker substitution. Such strategies can mitigate the potential financial impact of increased fuel costs and regulations that seek to limit or put a price on GHG emissions.

Outcome and next steps

We concluded that the fund presented a compelling investment opportunity, and its approach to ESG risk management met Railpen's expectations of external managers. Subsequently, we committed to seeding $100m subject to the fund meeting its minimum size target.

We recognise that the fund remains exposed to climate risks but believe that, as the largest Limited Partner, Railpen is well-positioned to continue engagement on decarbonisation strategies incorporating learnings from our CRIANZA analysis.

As well as performing bottom-up analysis on specific companies and projects (both public and private), we recognise that a view of country-specific ESG risks is helpful. This is the case both when making investment allocations to sovereign debt and to provide additional key information that supports us in assessing individual holdings in specific jurisdictions. We have embedded our country-level gross risk-screen, which was developed in 2021, into investment due diligence processes. Further detail on the screen's inputs and uses can be found on page 39 of Railpen's 2021 Stewardship Report.

Negative screening and exclusion

Where we believe there is a long-term risk to the value of an investment or significant reputational risk to the scheme, we will consider selling our holding. We have previously updated our exclusion lists on an annual basis. 2021 was an exception as we decided to review our approach across the following three exclusion categories:

- Companies with exceptionally **poor governance and conduct**. For these exclusions we seek to liaise with our fund managers on how these can be best applied. Please see case study 12 for details of changes to our approach, which was implemented from 2022.
- Companies who derive **over 30% of their revenues from thermal coal mining**, thermal coal power generation or oil sands (exploration, production and services). We seek to manage our climate risk exposure by excluding companies whose business models are heavily exposed to highly carbon intensive fuels.
- Companies involved in manufacturing **indiscriminate weaponry** (including cluster bombs, incendiaries, mine dispersers and anti personnel devices) in line with the Convention on Cluster Munitions.

When we have identified companies at risk of exclusion through quantitative screening and qualitative ESG analysis, we seek to engage with the identified companies to hear their perspective and gauge their level of commitment to genuine improvement and positive change before deciding whether to proceed with the exclusion.

Case study 12: **Implementing our updated Governance and Conduct Zero-Weight process**

Background

Railpen's Governance and Conduct Zero-Weight (Gov Z-W) process aims to identify those companies whose governance and behaviour are of particular concern from the following perspectives:

- **Primary**: To avoid or to mitigate severe financial risks. The process helps us to identify those companies with governance 'red flags' and where we think these governance risks may crystallise at a future date.
- **Secondary**: To avoid or to mitigate significant reputational risk. The process helps us identify companies where a holding exposes us to reputational damage outside the appetite of the Trustee.

Railpen has run the Gov Z-W process since its inception in 2017, with the exception of 2021 when we reviewed and refreshed our approach. As described in last year's Stewardship Report, our review resulted in the refinement of data points used in our screen and optimisation of companies considered for escalation. We implemented these changes to better identify companies that exhibit forward-looking governance risks and demonstrate egregious behaviour in relation to our thematic priorities, such as modern slavery and biodiversity.

2022 process

We ran our updated screening process in 2022, resulting in the selection of 25 companies for qualitative analysis to further understand the governance and conduct issues that had been flagged. Our analysis identified 18 companies for direct engagement, of which 13 responded to our outreach.

We also engaged with those companies we had previously excluded. As our case study on Olympus Corporation shows, a company it is eligible for re-inclusion in the portfolio if it is willing to begin a dialogue and can demonstrate an improved approach to managing the governance or conduct issues that triggered its exclusion.

Dialogue with companies focused on issues such as corruption, weak board-level oversight, product safety, workplace fatalities, modern slavery, environmental incidents, and deforestation. We heightened our scrutiny where multiples of these issues were present at a single company.

Following the closure of our engagement period, we took into account the factors below when deciding whether to escalate to exclusion:

- The company's willingness to engage in constructive dialogue
- The company's efforts to remediate or mitigate the issue(s), and evidence to support this
- The extent to which the company is an outlier amongst industry peers
- If relevant, the company's effectiveness in dialogue with affected stakeholders
- If relevant, the company's decision to exit from a controversial business division

2022 outcomes

The Sustainable Ownership team presented eight companies to the Investment and Risk Committee with a recommendation for either continuing to exclude, or newly excluding. These were approved and the exclusions implemented as quickly as possible thereafter.

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Case study 12: **Implementing our updated Governance and Conduct Zero-Weight process**

We also recommended some removals from our previous exclusions list, in light of improvements made. Olympus Corporation was one of these companies. We provide further details in the table below.

Issue
Olympus Corporation is a Japanese manufacturer of optics and medical devices. We had excluded the company through our Gov Z-W process in 2019 over concerns around its health and safety practices, as well as its approach to governance. These concerns had not been alleviated by conversations with the company, and it remained on the exclusion list during the 2020 cycle.

On each occasion, we had informed the company of our decision to exclude (or maintain the exclusion) and the rationale for doing so, to support our engagements and incentivise progress at the company.

Approach and rationale
In 2022, we reached out to the company again to talk about its progress. Our analysis had indicated that significant transformation to Olympus' governance practices had taken place since 2019, including a shift to a three-committee structure and greater independence of the Board, as reflected by an independent chair.

We were pleased to hear about plans to further strengthen not only board governance but also governance of the supply chain, including plans to meet external accreditation standards. Their annual report has further highlighted commitments to roll out their Global Business Services (GBS) approach to global group governance and strengthening co-operation between different board sub-committees. We were reassured by the detail provided by senior executives, indicating a clear grasp of the issues, and welcomed the honesty of executives' contributions, including an openness about where they felt progress had not met their expectation and how they intended to fix these issues.

Outcome and next steps
We make decisions about a company's exclusion (or reinstatement) based on a wide variety of criteria, incorporating intelligence both from our engagements and extensive research and analysis, and taking into account the level of progress made as well as whether there is a credible commitment to further progress in the future.

Although we had not felt ready to reinstate Olympus after conversations in 2020, it scored well in both our 2022 discussions and our analysis of its progress. We therefore decided to remove Olympus from our exclusions list and informed the company of our decision, as well as our rationale for doing so.

External manager selection and appointment

As outlined previously, Railpen uses a mix of internal and external management, although we have significantly reduced the number of external managers over the last few years.

Railpen's own equity and government bond portfolio managers are encouraged to adopt a long-term approach, minimising turnover and focusing on the long-term characteristics of holdings. We extend this approach to our externally managed equity and corporate bond portfolios, minimising turnover and aligning with our long-term focus on members' behalf.

Where new external managers are selected and appointed, we consider their ESG and stewardship policies, resources, integration into the overarching investment process, and the observable outcomes. We require the inclusion of ESG data in their investment analysis and their client reporting. We expect managers to align with our exclusion lists. We set out our expectations in our Investment Management Agreements (IMAs) via our Statement of Investment Principles that we append to all IMAs. Where necessary, we have worked with managers to enhance their integration of material ESG issues into the investment process and improve their client reporting.

Case study 13: **Engaging with and delivering feedback to external managers | Vote reporting**

Issue
Railpen exercises the majority of voting decisions in-house. This is because more of the assets have been managed internally in recent years, but also because we negotiate ownership of voting rights in both our externally managed segregated mandates and, where possible, our pooled equity funds.

However, we have one manager who undertakes some votes in pooled funds on our behalf. As part of our usual annual cycle of engagement with the manager, each year we request that this manager report their voting behaviour on our behalf using i) the Railpen definition of Most Significant Votes and ii) the PLSA Vote Reporting Template, which Railpen helped develop. We find this information useful, not only because it helps us fulfil our own reporting requirements, but also as a way of gauging the thoughtfulness of our manager's approach to voting.

After changes in the manager's reporting approach over 2021/22, in early 2022 we began to engage with them about how we wanted the information they reported to better align with what we needed. This would help us to be able to assess their voting behaviour.

Approach and rationale
We recognise that new regulations, such as those regarding the Implementation Statement, take time for impacted firms to adjust to. This is why Railpen works to give as much notice to service providers as possible of what we need. In this case, we had sent through our thematic priorities and updated Voting Policy in advance.

When we did not receive the voting information we needed, we raised this privately with the manager in early 2022 and asked for more detailed rationales on a small sample of votes that we had decided to report. We also discussed the issue with external advisers involved in reviewing and assuring our Annual Report and Accounts, of which the Implementation Statement is part.

It was agreed that we would:

- Request a meeting with our manager's senior responsible investment team and leaders;
- Work with our Public Markets team to ensure our concerns were transmitted to senior client relationship executives at the manager.

In response, we held meetings with the manager in summer 2022 and were pleased at their commitment to review their organisation-wide vote reporting approach in light of our 'pivotal' feedback.

We welcomed the receptiveness and responsiveness of the manager's team and had some follow-up conversations where we gave feedback on the proposed changes.

Outcome and next steps
However, the situation highlighted to us that there remain industry-wide issues in terms of vote reporting and the quality of the information pension schemes receive from their asset managers. To this end, since 2022 we have co-chaired a sub-group of the Financial Conduct Authority's Vote Reporting Group, which is working to improve the information flow on voting from managers to their clients.

Part of our work has been to feed through our experiences of vote reporting from external managers. We are hopeful that the Group's work will lead to improvements for all schemes – including those with limited resources for stewardship and responsible investment – regarding vote information from their managers.

How external managers are monitored

Railpen is responsible for ensuring that external fund managers invest Scheme assets in line with the Trustee's investment policy and that the fund managers' stewardship and sustainable investment policies align with the Trustee's own policies. This includes taking into account the quality of stewardship and ESG integration (including climate change) when selecting external fund managers, and monitoring these fund managers' stewardship and ESG integration (including climate change) during the investment period.

We review the ESG practices of a selection of our external managers at least once each year, on a rolling sample basis, though we will meet more regularly if required. The assessment of listed equity managers' stewardship capabilities is continuous. We also contact managers to establish their views on proxy voting, corporate actions and governance issues at portfolio companies as and when they arise.

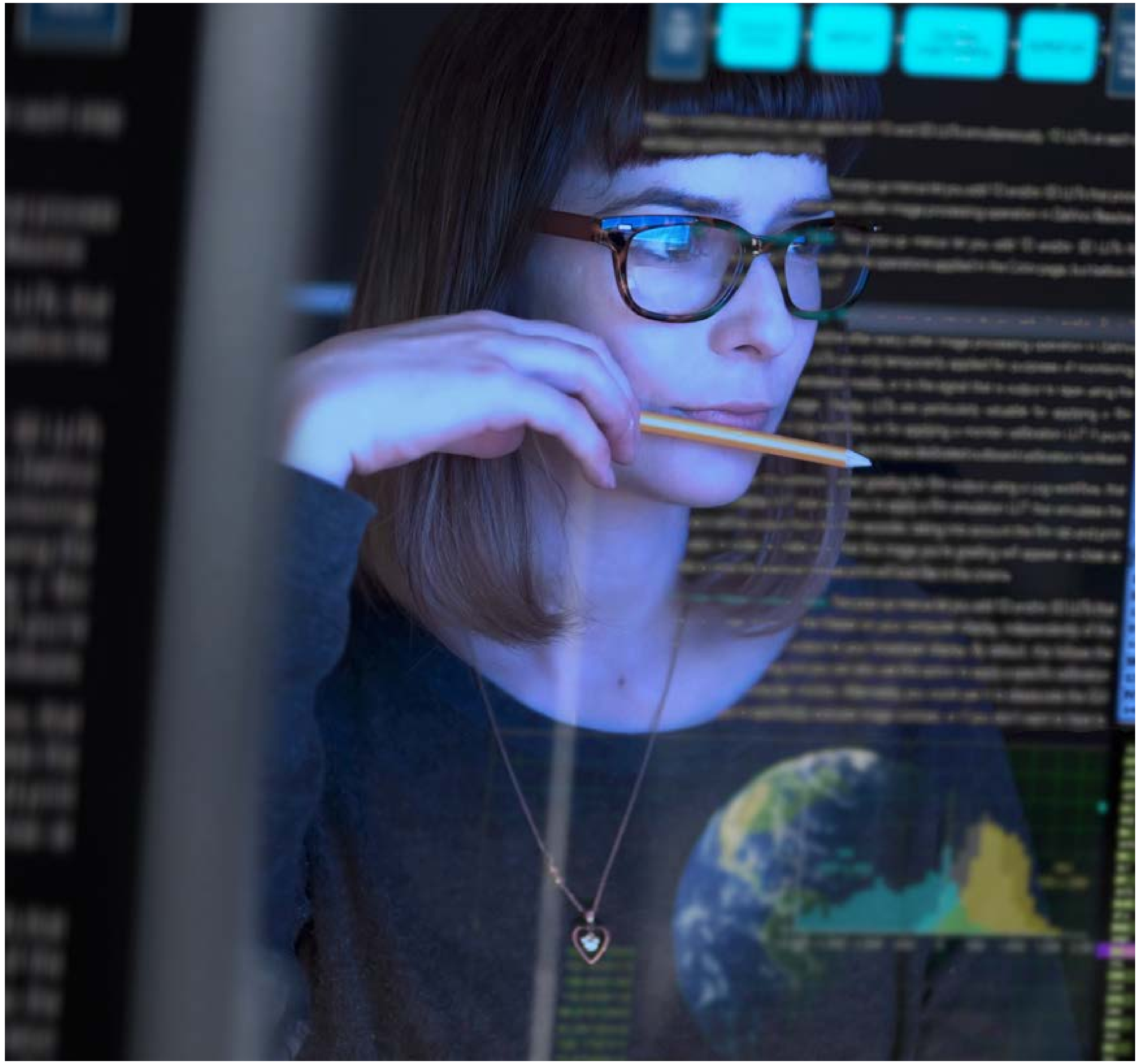
In last year's report, we discussed how we had refreshed our approach to reviewing managers, and created our Manager Assessment Framework (MAF). The framework was designed to better align our scoring process with that of the Manager Monitoring team.

In line with Railpen's approach to sustainable ownership, the MAF centres around two core pillars: ESG Integration and Active Ownership. The manager's climate work is also assessed across the two pillars.

- ESG Integration includes the manager's ESG investment beliefs, responsibilities, integration processes, and ESG resources.
- Active Ownership includes reporting, engagement and voting, and collaborative industry involvement and advocacy.

Using the MAF as a foundation, we have tailored Due Diligence Questionnaires (DDQs) to the different asset classes in which our external managers invest. Responses to the questionnaire are typically reviewed alongside public-facing reports such as Stewardship Code reports or net zero commitments, before arranging a meeting to gather further information and explore any areas of concern or misalignment. The Sustainable Ownership team members then discuss this feedback before assigning the manager a RAG rating and an ESG risk rating. A list of actions for follow-up and review is also created.

The equities DDQ was rolled out across all of our growth managers in 2021. Although many of our managers scored well across much of the assessment framework, we noted some gaps in the climate stewardship and engagement processes and objective-setting with some managers. Case study 13 demonstrates how we articulated specific recommendations to a growth manager in 2022, with the aim of strengthening their approach to vote reporting.



In last year's Stewardship Report, we described how Railpen selected an external manager for our regional equities mandate[17]. Ultimately, we agreed upon an Investment Management Agreement (IMA) that ensured effective stewardship of portfolio companies, integration of ESG factors into the investment process, and regular incident reporting. Building upon this, case study 14 demonstrates how in 2022 we assessed the manager's ongoing alignment with the expectations that were set out during the appointment process.

Case study 14: **Engaging with external managers | Regional equities mandate – 2022 update**

Background and setting expectations
Before appointing Railpen's regional equities manager, several internal teams followed an extensive due diligence process. The Sustainable Ownership team focused on the integration of ESG factors into the manager's investment decision making and ongoing stewardship.

Our approach to the manager's initial appointment in 2021, and ongoing monitoring, follows the team's Manager Assessment Framework (MAF). Throughout the process, we have articulated the expectations set out in the MAF, including:

- deep integration of ESG into investment beliefs, governance and culture
- use of high-quality ESG resources, data sources, and tools
- a robust approach to active ownership, including clear targets for engagement and escalation processes
- a strategy to reach net zero alignment

Articulating specific recommendations
During due diligence, we were reassured by the manager's incorporation of ESG factors into their investment processes. Therefore, our 2022 dialogue focused on the enhancement of existing processes and ongoing alignment with the MAF.

A key point of discussion has been ensuring the manager possesses sufficient resources to meet Railpen's expectations on ESG integration, both in terms of the regionally-based team and also the centralised ESG research inputs. Prior to appointment, we agreed with the manager that an ESG analyst on the ground would be the most effective way to enhance their identification and understanding of ESG-related risks and opportunities. Ensuring the analyst was a speaker of the local language would further support the manager's engagement activities. Since appointing the manager, a new ESG analyst has joined the regional office and provides Railpen with detail on both company-specific and broader regional ESG issues. The analyst joins all investment team and company meetings to ensure a fully-integrated approach.

Railpen additionally agreed with the manager to enhance the integration of ESG data into their equity analysis framework. We decided on the use of third-party ratings as red-flag indicators that would prompt further analysis by the manager's global and regional teams. We also agreed on the use of international standards to provide further insight on potential company risks, both reputational and operational.

In terms of reporting, we requested that the manager integrated material ESG issues in their standard reporting and not as a separate document. Railpen's belief that ESG factors are financially relevant underpins our requests for integrated reporting, in which the financial risk and opportunity attached to ESG matters can be clearly contextualised and understood.

As the region's exposure to ESG risks is higher than average, it was felt that six-monthly monitoring by the Sustainable Ownership team would be appropriate. Additionally, the team joins quarterly investment monitoring meetings. During these meetings, we have discussed the efficacy of their approach to ESG risk management.

Outcome and next steps
Our expectations of the manager have been well met during the mandate's first year. We believe they have been successful in using research providers to complement more widely used global ESG specialists and to support their growth-focused, in-house fundamental analysis. Nonetheless, we continue to monitor the ongoing development of ESG data models by the manager, alongside the role of the regional ESG analyst in ensuring ESG analysis is fully integrated to the investment decision-making process.

[17] *Please see case study 13 in the 2021 Stewardship Report.*

Following our assessment of Railpen's growth managers in 2021, we focused on tailoring the MAF to infrastructure and private markets during 2022. As explored in case study 15, the objective of this work is to conduct consistent assessments of external managers within these asset classes.

Case study 15: **Applying the Manager Assessment Framework to the Long-Term Income Fund (LTIF)**

Approach
Our Long-Term Income Fund (LTIF) targets defensive real assets, including core infrastructure, renewable energy, and long-lease commercial real estate in the UK. These investments are intended to be long-dated and resilient through turbulent times, so it is critical that they are well positioned to meet emerging regulation and broader ESG risks.

Where the LTIF team works with external managers, we aim to ensure alignment with Railpen's approach to sustainable ownership. Therefore, building upon our efforts to implement a new ESG risk assessment process for LTIF's direct assets in 2021, we tailored the Manager Assessment Framework (MAF) for application to the fund's external managers:

- When drafting Railpen's Infrastructure ESG due diligence questionnaire (DDQ), we drew upon the Principles for Responsible Investment's guidance for this asset class.
- As LTIF's external managers invest in both equity and debt, risk management scores were weighted differently according to financing type to reflect the varying importance of ESG integration and active ownership.
- Where external managers focus on one sector, we integrate the MAF into Materiality Maps to ensure sector-specific risks are considered.

Due to the extensive amount of information published by our external managers and understanding of their approaches, we decided to conduct an initial assessment of public disclosures before sending a DDQ or engaging for further insight.

Outcome and next steps

A summary of the assessment's initial results

	Manager #1	Manager #2	Manager #3
Gross ESG risk	Low	Low	Medium
ESG risk management quality	High	High	Medium
Net ESG risk	Low	Low	Medium
	✓ Robust governance ✓ Developing an approach to ESG reporting in debt ✗ Limited evidence of stewardship in dept	✓ Established risk identification process ✗ Inconsistencies in ESG investment belief	✓ Post-investment stewardship of material issues ✗ Compliance-driven approach ✗ No Net Zero commitment or GHG tracking in place yet

In 2023, we plan to refine the scores through discussions on our findings and any gaps identified. The lowest scoring external manager will be prioritised for engagement, as we recognise that a score of 'medium net ESG risk', as it is based on public disclosures, may not yet accurately reflect their actual approach in practice. We aim to gain clarity through discussion, but will set expectations for improvement if necessary.

Following the refinement of our initial scores, the Sustainable Ownership and LTIF teams will coordinate to arrange regular ESG monitoring meetings with our existing managers. We will also apply the Infrastructure ESG DDQ to new managers.

Our external research providers

Railpen uses a range of research from external providers to support our ESG analysis, our stewardship work and as an input into our decision-making. We acknowledge that each provider's approach will incorporate its own methodology – and some level of in-built bias. This is why Railpen consults different providers and data sources and why we take steps to verify key information with our own internal analysis.

Additional inputs to our analysis of source documentation come from the Sustainable Ownership team's dialogue with companies and other stakeholders, as well as media resources.

A key example of this is for our climate and indiscriminate weaponry exclusions processes. We recognise that data vendors report information from annual reports and 10-Ks but that occasionally this information may have changed since the reporting year closed. As a result, the Railpen team reviews companies identified as being at risk of exclusion to ensure the accuracy of the latest data. Where we identify a discrepancy, we engage with the service providers to help improve their own processes.

Using several different service providers also boosts overall coverage of companies – as different providers will have expertise across different regions or sectors – and ensures Railpen has access to more frequently updated analysis, as update schedules will vary across organisations. We use the following service providers:

- ACSI
- Berenberg
- Bloomberg
- Exane BNP
- Glass Lewis
- Goldman Sachs
- ISS
- JP Morgan
- Kepler Cheuvreux
- Morgan Stanley
- MSCI
- RepRisk

As Railpen continues to build out our investment data systems in line with industry best practice, the inclusion of ESG data will support closer management of corporate governance and wider sustainability risk at both company and portfolio level. Therefore, we initiated an ESG data project in 2022, with an initial focus on corporate governance. Case study 16 offers further detail on the project's first phase and our appointment of an external data manager.

Case study 16: **Developing Railpen's proprietary corporate governance score**

Issue

Railpen views good corporate governance as a minimum standard and protection against downside risk, regardless of sector. The availability of corporate governance data on listed equities has increased as research providers compete in a fast-growing market and companies disclose more ESG data to meet investor and regulator demand.

Railpen sources corporate governance data from a range of providers as well as directly from portfolio companies. However, data has often been accessed via different platforms and in different formats, and is not easily available to the wider Railpen teams.

Objective

We decided that we needed to do two things. The first was to develop a methodology that better assessed corporate governance quality at a company. The second was to either build or find a database that would collect and aggregate these data points.

Once calculated, the corporate governance scores would:

- be made available on internal investment platforms for easy use by Railpen teams
- enable the Sustainable Ownership team to map the standard of corporate governance performance across internally managed listed equity portfolios
- identify companies with a higher than average exposure to corporate governance risk, which would act as a prompt for engagement prioritisation
- allow for changes in company performance to be easily tracked

Approach

The Sustainable Ownership team began the project with a review of industry frameworks to ensure Railpen aligned with best practice. Using desk-based research and the team's combined experience, core sector-neutral governance risks were identified. We then undertook a review of the best available data points to measure these risks. Once our data points were selected, the governance framework and scoring approach were drafted.

Due to the high level of resources involved, we agreed that employing an external data manager would be a more efficient and cost effective way to develop the model. In alignment with our commitment to assess all current and future service providers using Railpen's procurement policy, we looked for a data manager that offered the best value for money – defined as the optimum combination of whole life costs and quality to meet our requirements.

We appointed a manager which met all our requirements, including using a range of providers to fill data gaps, with data sources continually reviewed to ensure the best available inputs.

Outcome and next steps

Building upon our work on a proprietary corporate governance score, the next phase of this project will seek to develop a weighted score for sustainability data.

Railpen's proprietary sustainability score will include weightings to reflect the materiality of data points on a sector-by-sector basis. These weightings will allow the score to more accurately reflect environmental and social risk across our listed equity portfolios.

In light of the growing interest in sustainable investment, the market for service providers across ESG and stewardship data, tools and advice, is rapidly developing. The Sustainable Ownership team therefore reviews the market landscape every few years to ensure that we receive the high-quality support necessary for undertaking effective stewardship and ESG integration[18].

Case study 17: **Engaging with potential service providers | Stewardship implementation, monitoring and reporting system**

Issue

Railpen uses a number of different databases and systems to store engagement and voting data and support us in both monitoring stewardship progress and producing reports for audiences including the Trustee and regulators. These systems have been built upon over time, as the market develops to support new functionalities, and the Sustainable Ownership team has grown.

In 2022, we decided to review the market to see whether there was a single available solution that could replace these databases. From discussions with peers, we were conscious that this was an issue that the responsible investment industry was grappling with. We wanted to understand whether the market for such products had developed in response and in a way that would effectively support us to undertake effective stewardship.

Approach and rationale

To gain a better understanding as to what we needed, the Railpen Sustainable Ownership team first discussed and agreed a set of attributes and functionalities that we would need any stewardship system to provide. These included:

- the ability to combine engagement tracking and meeting notes, stock research, ESG data feeds and voting information
- workflow capabilities i.e. the ability to be able to assign responsibilities to individuals either for key tasks, or broader company-specific and thematic responsibilities
- categorisation of engagement by activity and theme
- ability to create and easily update milestones and objectives
- automated data/document upload process
- capacity for producing tailored reports which could be either activity-based or outcomes-based
- production of visual statistics and graphs

We also had a number of additional – but not necessary – criteria that we were interested in. This included the ability to explore on a given platform what other asset managers and owners were doing by way of collective engagements, and mapping against the most relevant regulatory regimes.

Once we had pulled together our criteria, we undertook a dedicated review of the available services on the market. This included both specialist stewardship database providers and some of the larger integrated responsible investment platforms.

Outcome and next steps

We were pleased with how the market for stewardship database and systems providers has developed in recent years. However, we were unable to find a current provider that would meet all our essential criteria, though we did find some that could meet a selection of these as well as some of the additional criteria.

Several providers noted that additional functionalities, in line with our criteria, would be developed by mid-2023. We will therefore undertake another quick landscape review in 2023 to see whether there have been any substantive changes, but are also exploring internally with Railpen Investment IT teams and others how we might build a proprietary database.

We will report on progress in our next Stewardship Report.

[18] *To see this approach in practice, refer to case study 14 in our 2021 Stewardship Report.*

IMPACTFUL ENGAGEMENT

Constructive engagement with portfolio companies supports our objective of enhancing the long-term investment returns for our members. We will engage with companies when we consider it is in our members' long–term interests to do so, and will endeavour to identify problems at a sufficiently early stage to minimise any loss of shareholder value. This approach is primarily utilised in our Fundamental Equities portfolios but is also utilised in index-tracking and quantitative strategies where appropriate and where we feel it will add significant value.

The in-house Railpen Sustainable Ownership team works both independently and alongside internal Investment Management teams, our external managers and other investors, including other major pension funds, to monitor investee companies and engage where necessary. Whether we undertake direct or collaborative engagement will depend partly on whether the nature of the risk is company-specific or systemic.

Direct engagement

We focus our direct engagements on those holdings that are most material to our portfolio i.e. where there is the most potential value at risk and where engagement – either to understand the company better or to achieve positive change – can have the greatest impact. This aligns with our Trustee's Investment Belief that "Railpen recognises the value to be received from concentrated positions in high-quality assets we thoroughly understand. Allocations should primarily be made to assets with conviction, and should be sized to have a noticeable impact on a scheme's objectives."

There are four priority engagement lists in the listed equities portfolio:

- **Fundamental Equities** – companies that are held in our fundamental growth strategy. We seek to engage regularly with all these companies, of which there were approximately 100 as at Spring 2023.
- **Thematic** – although Railpen may engage directly with key holdings on thematic issues, we often undertake thematic engagement in collaboration with others. We prioritise our resources across those coalitions we believe are the most impactful. We are a member of several coalitions and will typically lead on one or two companies within each while participating in some or all of the rest as a supporter.
- **Quantitative Equities** – companies that are held in our quantitative strategy. We seek to engage with the largest holdings on an annual basis, covering a significant proportion of our assets under management in the portfolio.
- **Governance and Conduct Laggards** – problematic companies at risk of exclusion.

Company dialogues and opt-ins to specific coalitions are regularly reviewed with the Head of Sustainable Ownership and sent to the Chief Investment Officer (CIO) for noting.

While the bulk of our company engagement takes place within listed equities, we also engage on an ad hoc basis with companies in other asset classes, specifically within private markets and fixed income. Typically, these engagements will form part of our pre-investment due diligence, but we are increasingly undertaking post-investment engagement as part of our ongoing Manager Assessment Framework process. In 2022, examples included site visits to some of our main US private markets managers as well as engagement with some of our directly held companies in our pre-IPO portfolio around share structure and voting rights in any future listing[19].

Direct engagement process

The Sustainable Ownership team will write to the company seeking either an in-person meeting or a phone call, with management or the board. We use the annual update of our public-facing voting policy as an opportunity to continue our dialogues, outlining our expectations on key issues for the year ahead and our thematic engagement and voting priorities – and how we will vote where these expectations are not met.

In advance of the initial discussion, a number of meeting objectives are set, and material topics are prioritised. Most meetings are co-engagements alongside the Investment Management team, which enables access to a broader range of senior executives than if either team was engaging by itself. After the meeting, we consider post-engagement targets, with input from the Investment Management team if the company is held in our Fundamental Equities strategy.

Short-term targets are typically aimed at relatively straightforward changes, such as to disclosure or simple governance or remuneration changes that are centred on voting decisions. Medium or long-term targets will be seeking a substantive change in practice. The longer-term targets are typically over a three- or five-year time horizon. We recognise that meaningful change on the substance of an issue, as opposed to just disclosure, does not happen overnight – and neither does the building of the effective relationships required to achieve positive impact.

Climate and multiple governance themes are part of voting and engagement activity across the portfolio. When we engage with a company in our fundamental equities portfolio, we always consider whether insights from our thematic engagements elsewhere can be brought to bear on any material stock-specific issues.

[19] *Please refer to page 49 of last year's Stewardship Report for other examples of this process in practice, as well as case study 25 in this report for our pre-IPO company engagement work through the Investor Coalition for Equal Votes (ICEV).*

The following case studies provide further details of some of our direct engagements with portfolio companies on their most pressing and material sustainability and governance issues.

Case study 18: **Listed equities engagement | Amazon and workforce relations**

Issue
Amazon is held in Railpen's actively managed strategy, through our Fundamental Equities portfolio. We have been in dialogue with the company over many years on the long-term sustainability of its plan for growth. Social issues, particularly the worth of the workforce, remain a focus of our engagement due to their materiality to Amazon's operations and alignment with Railpen's thematic priorities.

Building upon previous conversations around the Retail, Wholesale and Department Store Union (RWDSU) drive at the Bessemer Fulfilment Centre and subsequent criticism of Amazon's approach to union engagement, we had been keen to clarify our expectations of portfolio companies on freedom of association. As a first step, Railpen's 2022 Voting Policy confirmed our belief that the right for workers to form and join organisations of their own choosing is key to ensuring a company operates in the interest of all its stakeholders. We were therefore keen to reiterate our belief to Amazon as further union drives and petitions with the National Labor Relations Board (NLRB) were announced throughout the year.

Multiple health and safety incidents were reported at Amazon's Fulfilment Centres during 2022, including a fire at the unionised JFK8 warehouse in Staten Island. Reflecting ongoing scrutiny around Amazon's approach to workforce relations, the company faced several shareholder resolutions on social topics at its 2022 AGM. Many of these resolutions requested additional disclosure, including on worker health and safety disparities.

Objective
Amongst broader discussions on governance topics, we established two key aims for our engagement:

1. Assess the alignment of Amazon's policies and practices with the International Labour Organisation's (ILO) core conventions, and reflect our view when voting at the 2022 AGM.
2. Provide support on areas of disclosure where we expect to see improvements. In particular, further rationale to support Amazon's belief that direct communication continues to be in the best interest of employees, and evidence of progress towards Amazon's target of becoming the 'Earth's Best Employer' through the publication of more detailed health and safety data.

Approach
Prior to the AGM, we held two calls with the Amazon team to discuss any lessons learned from the 2021 union elections, our thoughts on the new Delivered with Care Report, and relevant shareholder resolutions.

We felt the company's Freedom of Association policy could do with further detail on engagement mechanisms at their US Fulfilment Centres. We also asked if Amazon would consider a statement of neutrality towards union organisers and noted that we did not believe that mandatory company meetings on unions were held in line with the spirit of the ILO's core conventions. Consequently, we supported the shareholder resolution requesting a report on the alignment between Amazon's policies and practices with fundamental labour rights.

After sending a pre-AGM notification of our voting intentions and rationale, we arranged our third meeting of the year to deepen the discussion on workforce-related reporting. We received helpful insights into the case studies selected for the 2021 Sustainability Report, which we noted that other stakeholders would likely appreciate. We also agreed that the connection between Amazon's belief in direct engagement and outcomes for employees

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Case study 18: **Listed equities engagement | Amazon and workforce relations**

could be strengthened. For example, by publishing actions taken in response to concerns raised on 'Voice of Associate Boards' to demonstrate the effectiveness of this mechanism.

Outcome and next steps
Following our third meeting, we had the opportunity to share detailed suggestions on the 2021 Sustainability Report with Amazon's reporting team. Our suggestions built upon the Workforce Disclosure Initiative's reporting framework and the Worthwhile Workforce Reporting guidance recently published by Railpen. While we met our objective to provide support on areas of disclosure where we expect to see improvements, insufficient time has passed to assess whether our suggestions have been incorporated into sustainability reporting.

Support for shareholder resolutions at the AGM reached unprecedented levels this year. For example, votes cast in favour of additional disclosure on freedom of association were 38.9%. As outlined in Railpen's 2023 Voting Policy, we will consider escalating to a vote against the adoption of the Report and Accounts or the director we deem responsible if we see insufficient improvements in Amazon's respect of employees' labour rights.

We look forward to continuing engagement with Amazon and will provide a progress update in next year's Stewardship Report.

Case study 19: **Listed equities engagement | Ryanair and climate**

Issue
Ryanair is held in the Fundamental Equities portfolio. It remains the highest emitter in the overall Railpen portfolio (based on financed emissions) and is a key engagement target in Railpen's Net Zero Engagement Plan.

In 2021, we piloted our proprietary CRIANZA framework to assess Ryanair's exposure to climate-related risks, and we identified multiple positive features. As outlined in last year's Stewardship Report:

- Ryanair exhibits 'very low' physical risk given the nature of air travel
- the company has a relatively strong current transition profile for the sector due its lower carbon emissions intensity versus peers
- there is also strong climate adaptation potential, albeit offset by the intrinsic high emissions level of aviation

Despite these features, the company's absolute emissions versus Railpen's overall portfolio – and areas identified for improvement in transition planning – still lead Ryanair be classified a 'Climate Risk'.

Objective
Through Railpen's Net Zero Engagement Plan, we have been in dialogue with Ryanair to improve:

- detail on medium-term targets and the broader transition plan
- the incorporation of climate-related risks in the financial accounts
- alignment of disclosures with the TCFD recommendations

Approach
As the voting rights of non-EU nationals were restricted in the wake of Brexit, and Ryanair has expressed plans to delist from the London Stock Exchange, it became clear that stewardship through voting would be insufficient going forward. Therefore, we have increased the focus of our efforts on engagement.

We maintain a regular line of communication between with the Investor Relations team. In December 2022, we took the additional step to attend Ryanair's inaugural "Pathway to Net Zero" Investor Day in Dublin to better understand how the company intends to decarbonise.

Outcome and next steps
Despite concerns that Ryanair had not adequately disclosed the details of its transition plan, we believe that management is increasingly engaging in the decarbonisation agenda. For example, Ryanair sponsored a new Aviation environment department at Trinity College Dublin and is fully participating in the European trade association, A4E.

We also commend the company's ambitious intention to adopt Sustainable Aviation Fuel (SAF) as 12.5% of its total flight fuel consumption by 2030, which is ahead of its short-haul European peers. For context, currently only 1% of flight fuel consumption derives from SAF, at roughly four times the cost of petroleum based aviation fuel.

We will continue to work with the Investor Relations team to work towards further disclosure and practice on the areas identified through our analysis.

Case study 20: **Listed equities | JBS – board-level oversight and supplier monitoring**

Issue
JBS is a food processing company based in Brazil, specialising in proteins. The company is held within Railpen's Quantitative Strategies portfolio, and we have been in dialogue since 2018. Over this period, JBS has remained a controlled company and experienced multiple controversies. As the controlling shareholder retains over 40% of the voting power, we recognise that our stewardship activities must extend beyond voting to engagement.

Objective
Our engagement has focused on gaining a deeper understanding of material risks to the business, and encouraging a strengthened approach to risk management.

Approach
In recognition of the level of controversy that JBS faces, we continue to monitor whether there is a significant risk to the long-term value of the investment. A decision to escalate our engagement will take into account how responsive the company is to minority shareholders' concerns, including its willingness to engage.

We believe that good corporate governance enables strong risk oversight and is material to sustainable financial performance over the long-term. Therefore, we have raised concerns around the lack of independence and diversity on the board from the outset of our engagement.

In 2022, we focused our dialogue on supplier monitoring in light of reported advancements in the development of its Livestock Management Platform. We discussed JBS' focus on real world impact through the establishment of 17 'Green Offices' to work with cattle suppliers that were failing to comply with the company's deforestation policy, alongside collaboration with peers to share best practices. Additionally, we flagged our expectation for an update on the company's Hotspot Mapping Project to tackle forced labour.

Outcome and next steps
Since our engagement began, the Board's independence level has improved from 44% to 78%, gender diversity has increased from 0% to 22%, and there is now a fully independent Audit Committee. While this demonstrates progress, we feel there is still scope to strengthen Board-level governance. For example, through the election of an independent chair or Lead Independent Director.

Board's independence level
44% → 78%

Gender diversity
0% → 22%

Fully independent Audit Committee

Notwithstanding the introduction of stronger supplier monitoring systems, JBS continues to face criticism around deforestation and forced labour within its supply chain. These controversies have encouraged us to reconsider the effectiveness the company's systems, and highlighted the importance of quantitative targets to track progress. We were therefore reassured by JBS' confirmation that its 2025 zero deforestation target in the Amazon region applies throughout the entire supply chain, related KPIs are reflected in the company's domestic bond structure, and performance levels will be independently audited.

Despite inherent risks of deforestation and forced labour in the Amazon region, we believe that JBS' response has demonstrated a positive direction of travel and we acknowledge that the sustainability team remains open to our recommendations. We will continue to track the extent to which JBS fulfils our expectations, with the understanding that escalation may be used to highlight any concerns.

Case study 21: **Listed equities engagement | Board diversity and audit**

Issue
In our 2020 Stewardship Report, we talked about the launch of a new portfolio for small- and mid-cap European companies (FSP). One of the companies we invested in at this portfolio's inception was a European investment firm that specialises in private markets.

We had been engaging constructively on ESG issues with the company since FSP's launch and were keen to work together to achieve change in the interests of the company, its shareholders and – ultimately – scheme members.

Objective(s)
Our initial analysis of the company had highlighted that some of the most material ESG risks were around the composition of the Board (in terms of gender diversity, Board size and tenure), remuneration complexity and amount, and auditor tenure (we consider an audit firm that has been in place for more than 15 years at a company to be at risk of not being able to exercise the professional and independent judgement that shareholders need).

With this in mind, we set ourselves objectives for the engagement to focus efforts on the steps required to achieve, as well as to help measure, progress. Short-term objectives were focused on better disclosure (for instance around remuneration and diversity policies and metrics), while longer-term objectives were aimed at concrete change.

Approach
We held meetings with company executives initially, outlining our perspectives on board composition, the complexity and scale of remuneration, and auditor tenure. As well as flagging our concerns, we also took time to consider and suggest some possible solutions – providing perspectives gathered from our engagements with other, similar companies, as well as Railpen's own experience of being an (in-house) investment manager.

Although engagement was constructive in the first two years, we did not feel able to support on key votes at the 2021 and 2022 AGMs. We exercised several "against" votes against in the areas of remuneration, auditor appointment and the appointment of the Chair of the Nomination and Compensation Committee. However, as the approach to remuneration improved after our first year discussions, we were able to support the remuneration package in the 2022 AGM. Discussions and engagements continued throughout.

Outcome and next steps
In September 2022, we were invited to an in-person meeting with both former and new Board Directors. At the meeting, a proactive commitment was made by the Directors to tender for an auditor in the next year as well as going to market to recruit a new female Board member.

We welcomed this commitment and will monitor future progress closely.

Collective engagement

Direct engagement can be a powerful tool for effecting change. However, combining Railpen's voice, influence and expertise with those of other investors and stakeholders, whose interests and objectives align with our own, can make our engagement efforts more effective. This is particularly, though not exclusively, the case for thematic issues or system-wide risks[20].

We choose to participate in collective engagement activities, subject to any applicable laws and regulations in the relevant jurisdictions, where:

- The issue aligns with our core thematic engagement priorities
- The objectives of the collective engagement participants align with our own
- There are clear targets, roles and responsibilities
- There is a clear and well-defined process for escalation
- We believe we will achieve more impact as part of a bigger group

This is why Railpen is an active and often lead participant in several national, regional and global investor networks, alliances and trade bodies. In addition to those listed in our section on Working to tackle market-wide risk, we are signatories to the following major sustainable investment initiatives:

- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)
- CDP (formerly Carbon Disclosure Project)
- Workforce Disclosure Initiative (WDI)
- CCLA's "Find It, Fix It, Prevent It" initiative (modern slavery)

We are also a lead participant in a range of investor collaborative engagement initiatives, as well as participating in ad hoc projects such as investor letters to specific companies or on particular incidents of themes.

The case studies on page 65 provide insights into our work as part of core collaborative engagement initiatives on priority issues in 2022. Case study 22 also demonstrates how the Railpen Sustainable Ownership team leverages the expertise of a broad range of colleagues across the business, using these insights to improve the effectiveness and quality of our stewardship activity.

In any coalition, we and others in the group explicitly avoid co-ordinating on company-specific investment decisions and proxy voting decisions.

Initiative	Railpen role (2022)	Alignment with core thematic priorities
Climate Action 100+	Lead or leading participant on several company engagements	The Climate Transition
Amsterdam Coalition (remuneration)	Lead on one company engagement	Sustainable Financial Markets
30% Club Investor Group (gender diversity)	N/A (no collective company engagements in 2022)	Worth of the Workforce
C6 (diversity at USA companies)	N/A (no collective company engagements in 2022)	Worth of the Workforce
Cybersecurity coalition	Lead on two company engagements	Responsible Technology
IIGCC Bondholder Stewardship Group	Chair	The Climate Transition
Investor Forum	Participant	Sustainable Financial Markets
Investor Coalition on Equal Votes	Chair and Operational Lead	Responsible Technology/ Sustainable Financial Markets
FAIRR (ESG risks in the global food sector)	Participant	The Climate Transition
Coalition on Facial Recognition	Participant	Responsible Technology

[20] *Please also see Identifying material public policy debates and interventions.*

Case study 22: **Collective engagement | Cybersecurity**

Issue

In 2019, Railpen and NEST's report "Why UK pension funds should consider cyber and data security in their investment approach" highlighted the materiality of cyber breaches and the importance of investor engagement on this issue. Since the report's publication, cybersecurity threats have continued to cause substantial damage to companies through operational disruption, loss in revenue, fines and reputational harm. Reflecting this, cybercrime and cyber insecurity have maintained their ranking as a top 10 global risk over the next two and ten years by the World Economic Forum.

In the UK, the Cyber Security Breaches Survey found that 39% of businesses identified a cyber attack in the last 12 months, remaining consistent with previous years of the survey. This risk most recently materialised at companies such as JD Sports, Royal Mail and WH Smith.

Given the rapid digitisation of major sectors and the high allocation across our portfolio to the technology sector, 'Responsible Technology' was selected as a key thematic engagement priority for Railpen in 2021. Responsible Technology includes a sub-focus on cybersecurity.

Objective

We aim to address the systemic risk of cybersecurity through collective engagement efforts, as well as raising the subject in key direct engagements. The initial objective of our engagement has been gathering information to establish a set of expectations for portfolio companies. Although cybersecurity practices are challenging to influence due to their sensitivity, we strive to ensure that portfolio companies' risk management meets our expectations and that this is reflected in their disclosures.

Approach

As described in last year's Stewardship Report, we have worked alongside the Brunel Pension Partnership, NEST, Border to Coast and the Universities Superannuation Scheme (USS) over the past three years in a collective cybersecurity engagement led by Royal London Asset Management (RLAM).

The third phase of our engagement commenced in Q1 2022. In preparation, we undertook a screen of Railpen's 90 largest equity holdings to identify high-risk companies. Taking the findings of our screen into consideration, we decided to lead engagements with two major holdings in our internally managed portfolio: AbbVie and Roche. These companies were selected as they play a critical role in the healthcare ecosystem, with an extensive and growing digital footprint and responsibility to secure high levels of sensitive data.

Following the second phase of engagement, we were conscious that sources for our analysis were limited to companies' disclosure and reported incidents. When seeking a method to assess our target companies' digital footprint, we identified an opportunity for Railpen's Sustainable Ownership and IT Security teams to collaborate. Leveraging the IT Security team's subject matter expertise, we used a tool named Security Scorecard to provide insight into how hackers may view the companies' external digital perimeter. We also used data from BitSight to benchmark the companies against peers within their sector. Both teams worked together during engagement, which enabled a more nuanced discussion when speaking to fellow subject matter experts at our target companies.

In late 2022, the SEC consulted on a Proposed Rule to require further reporting by companies on cybersecurity. On behalf of the coalition, Railpen offered support for the Proposed Rule and shared the investor expectations to outline our views on what constitutes useful cybersecurity disclosure.

Outcome and next steps

In both our company engagements, we highlighted potential improvements in disclosure and practice. This included asking one company to highlight the Audit Committee's oversight role more explicitly in disclosures and flagging examples of good practice – from intelligence gained through previous engagements – to the other firm.

Sufficient time has not passed to assess whether our suggestions have been adopted within the disclosures of our target companies. Therefore, we will continue monitoring progress.

In early 2023, we will begin Phase 4 of the engagement by selecting a refined set of data points to identify further high-risk companies.

Climate Action 100+ (CA100+) is an investor-led engagement initiative where investors commit to engaging with at least one of the focus companies that are strategically important to the Net Zero emissions transition and to seek commitments on the initiative's key asks:

- Implement a strong governance framework on climate change
- Take action to reduce greenhouse gas emissions across the value chain, and
- Provide enhanced corporate disclosure

Railpen joined the initiative in 2017 and we have acted as both the lead and core participating investor during engagement with several companies. In last year's Stewardship Report, we confirmed that we would be increasing our collaboration with the coalition across key holdings. The case studies below provide insight into our efforts with some key emitters during 2022.

Case study 23: **CA100+ collective engagement | NextEra Energy**

Issue

Headquartered in Florida, NextEra Energy Inc. is one of the largest US-based utility holding companies. NextEra is held within Railpen's Fundamental Equities portfolio and remains a high emitter (based on financed emissions in Railpen's portfolio). Therefore, the company is one of our key climate engagements through CA 100+.

NextEra faces environmental challenges due to its exposure to the climate transition through a diverse portfolio of power generators including fossil fuel power generation and the largest portfolio of renewable power projects in North America. NextEra's nuclear generation fleet also adds risks of waste management and pollution. The company faces high physical climate risks resulting from hurricanes and tropical storms in its core Florida market.

Objective

From the outset of our engagement, we have aimed to obtain:

- public disclosure of a Net Zero commitment
- additional disclosure on climate lobbying activities

Approach

Railpen has been a co-lead investor in the CA 100+ engagement since September 2021.

The initial focus of our engagement had been the public disclosure of a net zero commitment, which we discussed in detail with the company. We were therefore pleased that NextEra fulfilled our request through the announcement of its plan for 'Real Zero' in June 2022, which included emissions reduction targets and committed to significantly increased renewable energy deployment. Targets have been set to reach a carbon emissions reduction rate of 70% by 2025 (from its 2005 baseline), with interim targets and an aim to achieve Real Zero by no later than 2045.

While this is positive news, the engagement will continue to steer and track the progress around Nextera's specific climate transition and lobbying activities. Building upon the Real Zero outcome, Railpen refocused our attention on climate lobbying, more specifically including discussions with Influence Map, its review of Nextera's climate lobbying disclosure and co-filing a shareholder resolution to request disclosure on the same.

Railpen's approach to the current engagement remains one of patient and planned dialogue on the topic, followed by escalation if needed. Through dialogue, we understood that NextEra has been party to discussions on various aspects of the US Inflation Reduction Act, which provides strong support for climate transition initiatives. While the company believes public disclosure on this topic will be detrimental to the future of lobbying on climate solution incentives, we believe transparency is necessary.

Outcome and next steps

With the aim of highlighting the importance of this issue, we supported a smaller group of shareholders to escalate the engagement to co-filing a shareholder resolution on the topic (although this has since been withdrawn). At the time of this report's publication, discussions are also ongoing with NextEra on the publication of a separate climate lobbying report.

Case study 24: **CA100+ collective engagement | Southern Company**

Issue
Southern Company is the parent company of multiple public utilities that operate in south-eastern and southern states of the US. It also develops, constructs, acquires, and manages power generation assets, including renewable energy projects. The company is held within our Quantitative Strategies portfolio, which is managed internally.

Southern Company has been identified as a key emitter in Railpen's portfolio, based on financed emissions, and selected as a target in Railpen's Net Zero Engagement Plan.

The company meets most of the CA100+ Benchmark indicators and Railpen's expectations for the industry, but we have identified scope for improvement around 'just transition' planning. The CA100+ engagement group for Southern Company, in which Railpen is a co-lead investor, made an initial request for the company to publish a Just Transition Report and this has been fulfilled. The Report aligns with COP 26 UN Declaration, includes information on governance structures, recognises of the concept of energy justice and importance of continuous dialogue with unions, alongside a commitment to retraining the workforce.

We believe that the Just Transition Report could be enhanced by committing to:

- early engagement with stakeholders for transition-in projects
- respect for human rights and indigenous communities
- efforts to strengthen supplier Code of Conduct provisions
- quantitative and qualitative metrics about stakeholder engagement activities

Objective
The objective of our engagement is to obtain additional disclosure from Southern Company on a Just Transition plan that builds upon the principles set out in its Just Transition Report. This aligns with Sub-indicator 9.3(a) of the CA100+ Benchmark.

Approach
As co-lead investor in the CA100+ engagement with Southern Company, we have engaged in constructive dialogue on both the production of its Just Transition Report, and assisting the company through the important first step to help tell its story.

This has involved the formalisation of the company's Just Transition Principles, and reinforcement of its commitment to support key stakeholders, including workers, customers, communities, and contractors, as the Net-Zero Plan is executed.

Outcome and next steps
The engagement continues in 2023 with the company providing provisional support for enhanced reporting on its Just Transition activities, including additional reporting on how the company tracks its fulfilment of its Just Transition Principles.

As Southern Company has the opportunity to contemplate these suggestions and plan for next steps, the investor group is establishing when and in what form we can anticipate such reporting.

We believe that annual reporting, in a form that is manageable for the company and accessible for investors, sets clear expectations for all stakeholders and establishes a defined structure for planning purposes. Therefore, the group will proceed with engagement and potentially design a template for just transition reporting at US companies.

Collective engagement beyond listed equity

We recognise that collective engagement in asset classes beyond listed equity is still evolving. Case studies 25 and 26 highlight Railpen's work in 2022 to fill what we perceive as a gap in the market for:

- clear, consistent engagement with private companies on unequal voting rights, and
- effective climate stewardship by bondholders

Additionally, whilst most of the case studies in this report outline what would be defined as a mainstream collaborative engagement – where we combine forces with other investors on a particular issue of concern – the case studies below align with our belief that partnering with industry bodies, and policy organisations, can be an effective stewardship strategy. This is particularly the case when producing thought-leadership and practical guidance to support other investors in their own engagements on specific themes and in under-explored asset classes.

Case study 25: **The Investor Coalition for Equal Votes (ICEV) | Progress in 2022**

Issue

In last year's Stewardship Report, we reported on our work on dual-class share structures[22]. We noted that Railpen's analysis had found the "prevalence of unequal voting rights (DCSS) across the technology industry as being one of the potential causes of poor governance and conduct" across our portfolio.

We also reported that in 2020 and 2021, while we had been somewhat successful in influencing for corporate governance safeguards, we needed to take more collaborative action "with the investor community aimed at key policy and market decision-makers from 2022 onwards".

This led to us launching the Investor Coalition for Equal Votes (ICEV) in summer 2022, together with the Council of Institutional Investors and several US pension funds, to fight back against unequal voting rights at portfolio companies in the US and UK (reflecting our portfolio allocation).

Approach and rationale

We recognise that the issue of unequal voting rights is a highly complex one: the policy situation and levers for influence vary by jurisdiction, as do the stewardship tools (ex-voting) available to investors. The situation is further complicated given that, by the issue's very nature, standard methods of pushing back against an undesirable corporate governance issue such as voting in favour of shareholder resolutions proposing a one-share, one-vote approach, or voting against the director(s) deemed responsible, are not impactful.

Railpen therefore worked with the Council of Institutional Investors to create a collective initiative (ICEV) which would prioritise influencing unusual engagement targets but where we hoped our engagement would, owing to the nature of the issue and key moments in the company lifecycle for influence, be more impactful, i.e.

- Engaging with pre-IPO companies and their advisers (lawyers, investment banks).
- Engaging with policymakers and the 'commentariat'.

The intention was that this would help us both influence private companies while they were not yet decided on their capital structure and help shift the 'mood music' with policymakers, so that they understood the detrimental impact on investors' stewardship activities – and thereby long-term financial performance – of dual-class share structures.

Other key aspects of this coalition included:

- a focus on the US and UK, given the outsized impact that policy movements in these markets have on developments elsewhere, as well as their relevance to Railpen and others' portfolio allocation
- a focus on US and UK asset owners as members of the ICEV coalition and steering group to begin with, to support nimbleness and enhance clarity of direction in the early stages of the coalition

The coalition launched in June 2022 with around $1.3tn of asset owner assets under management (AUM), and the first phase of our work was dedicated to engagement with targeted pre-IPO companies that we thought were likely to IPO in the next few years, as well as engagements with their advisers.

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[22] *Please see case study 33 in last year's Stewardship Report*

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Case study 25: **The Investor Coalition for Equal Votes (ICEV) | Progress in 2022**

Recognising the important role that policymakers play in either enabling or hindering companies regarding unequal voting rights, ICEV also fed in to the FCA's 2022 policy debate on dual-class share structures as part of its broader consultation on a potential move to a single segment listing regime.

In addition to the collective work of ICEV, Railpen also strengthened our 2023 Global Voting Policy on dual-class share structures (please see Voting Policy update case study 29) and also asked – in our own name – questions on dual-class share structures at the AGMs of some portfolio companies (please see case study 27 on AGM questions in 2022).

Outcome and next Steps

We recognise that, given the complexity of the issue and the entrenched nature of some of the interests of financial market participants, ICEV is likely to be a multi-year and multi-phase engagement.

In 2022, we were pleased with:

- the response of the investor community and the media. ICEV's AUM has grown rapidly since its launch in June, while also garnering increased mentions in academic articles and elsewhere.
- the receptiveness of some of the adviser community to conversations with ICEV on this issue, and their commitment to flagging ICEV to their clients.

However, we were disappointed that:

- only one company that we have engaged with so far has committed to list with a single class share structure, and
- there was a lack of response to our repeated requests for meetings both from pre-IPO companies and target advisers

Please note that, at the time of writing, the FCA has not yet issued its response or the final policy statement on the single segment regime.

In 2023, we intend to have more, and more impactful, engagements with key targets through:

- growing our AUM (so we can better achieve critical mass) and opening up ICEV membership to more asset owners and asset managers
- focusing our media outreach work on outlets which are more focused on the IPO adviser community
- escalating the nature of our requests to advisers and pre-IPO companies for meetings, including considering whether a public letter might be more effective, and
- undertaking research (to be published later in 2023) which highlights the evidence base and articulates the case for equal voting rights effectively to policymakers and journalists

We will report on the progress of these activities in next year's Stewardship Report.

Case study 26: **IIGCC bondholder stewardship**

Issue
Bondholders typically fund the majority of a company's capital structure and have clear responsibilities to exercise good stewardship, as set out in the UK Stewardship Code. However, bondholders are not able to regularly vote on companies' corporate governance, and have limited rights specified in bond prospectus and covenants, which cover debt management but not overall business and climate strategy.

There has been limited industry guidance for bondholders on climate engagement. Consequently, engagements between bondholders and companies remain fragmented and bespoke. They range from combined equity and bond engagements for listed companies through CA100+ to direct engagements through equity and fixed income research analysts.

Despite the ongoing standardisation of climate transition plan disclosure through TCFD, there is still a limited collective understanding of the gaps between the Net Zero alignment of an issuer and the specific bond issuance. There has also been a lack of consensus on the overall governance and accountability mechanisms that debt investors need for effective bondholder stewardship.

Objective
The IIGCC Bondholder Stewardship Working Group was launched in 2022 to support bondholders in shaping the transition to net zero. Chaired by Railpen, the Working Group will serve to address the gap for a bondholder collaboration to improve climate-related governance, accountability, effective stewardship and financing frameworks for bond investors. The Group shares IIGCC's core objective to deliver real economy progress towards a net zero and resilient future by 2030 in line with beneficiaries' best interests.

Approach
Building on the Net Zero Stewardship Toolkit, published in April 2022 for listed equities, the Group will develop guidance on a life cycle-based approach to net zero engagement in corporate debt.

The guidance aims to provide bondholders with the foundational tools to commence, enhance and standardise stewardship practices to deliver the rapid acceleration in decarbonisation required to halve emissions by 2030, and increase the likelihood of achieving net zero by 2050.

The guidance will explore the differences between engagement with publicly listed companies, private companies and sovereign-owned companies, as well as between investment grade and high yield issuers, and bondholder stewardship in emerging markets.

The group will identify best practice engagement standards and techniques over the life of the bond and beyond. The practices set out in the guidance will serve to inform engagements with CA100+ focus companies and the IIGCC's Net Zero Engagement Initiative. The recommendations will also be disclosed to regulators and policymakers for consideration.

Outcome and next steps
At the time of this report's publication, the Group is in the process of finalising the results of the first work stream on Engagement Framework Guidance, which we expect to publish in mid-April 2023.

The Group has also commenced work on the second workstream covering best practice standards for green and sustainability linked bonds, and is targeting the publication of this guidance during the summer of 2023.

How we escalate action if necessary

We seek to engage with companies in a confidential and constructive manner without publicity as we expect good management to reassure investors when faced with shareowners' concerns. However, we reserve the right to make public our concerns if the company fails to address adequately the issues that have been raised and escalate as appropriate.

If portfolio companies fail to respond constructively, we will consider whether to escalate action, including the following approaches:

- Writing to the company to highlight our concerns
- Meeting with management specifically to discuss concerns
- Meeting with the Chair, senior independent director, and/or independent directors
- Expressing concern through the company's advisers
- Collaborating with other investors regarding our concerns
- Making a public statement at the company's annual general (or shareholder) meeting[23]
- Releasing a press statement, either singly or jointly with other investors
- In extremis, advising our internal or external managers to consider selling our shares in the company[24]

The above options are available to us across our public markets portfolios, covering all geographies. We may also vote against the relevant resolution at the company's AGM. We believe in the power of the vote to effectively and publicly express our dissatisfaction with the company's approach to key issues. We also believe in holding individual directors to account on areas for which we deem they have lead responsibility.

Within other asset classes, we will approach escalation on a case-by-case basis alongside portfolio managers. The exercise of our vote is an escalation opportunity that comes up more rarely beyond listed equity so our preference is instead to focus on meetings with company management, co-engagement with the Railpen portfolio managers and engaging alongside other investors where relevant.

Case studies 27 and 28 outline examples of escalation across our listed equities portfolio in 2022.

[23] *You can find the list of public statements on the Railpen website.*

[24] *For further details on our exclusions processes, please see case study 12.*

Case study 27: **2022 AGM Questions**

Issue
Railpen recognises that equity ownership rights are much broader than just (usually) the right to express our view on a company's behaviour through exercising our vote. We look to use the full extent of our ownership rights to help us achieve the stewardship objectives necessary to secure our members' futures.

One of these ownership rights is the ability to ask a question at a company's AGM. This is an escalation tactic (beyond simply casting a vote or a private engagement) but can be a useful way either of publicly raising awareness of an issue, or obtaining a public commitment from senior company executives or board directors to meeting with Railpen.

Approach and rationale
Although in 2021 we had been successful in gaining meetings with the vast majority of companies we had wanted to engage with, some had not responded to multiple requests.

In 2022, we decided that we would try to gain a meeting with some of those companies that had not responded through asking a question at their AGM. We discussed possible companies across the team and came up with a shortlist:

- AbbVie – a company in our Quantitative Strategies portfolio that we were leading engagement with as part of the Cybersecurity coalition (please also see case study 22)
- Block – a company held in our Fundamental Equities portfolio
- Alphabet – a company held in our Fundamental Equities portfolio
- Samsung – a key emitter in the portfolio, and therefore a priority engagement target for our Net Zero Engagement Plan

Although asking an AGM question is considered an escalation tactic, we seek to be as open and collaborative as possible in doing so. Therefore, after discussion and finalisation of the question with the relevant Railpen portfolio managers, we sent our question to the company's Company Secretary and Investor Relations teams around a few working days in advance of the AGM, to give them time to prepare and support relationship building.

We are also cognisant that, as AGMs become increasingly virtual, the emphasis in some of the meetings attended is on short, snappy questions. Unfortunately, this allows little time for a fuller articulation of the issues we want to raise and the rationale for the question asked. Therefore, for those meetings where we anticipated shorter time allocations for shareholder questions, we produced two versions of the question:

- A concise question to be asked at the AGM
- A fuller question to be included in the advance notification sent to the company

Both these versions were sent to the company in advance.

We also publish our AGM questions on the Railpen website as soon as they are asked, to support us to be transparent to stakeholders and members.

Outcome and next steps
The AGM questions were successful in obtaining meetings with Samsung, AbbVie and Block. These meetings were useful in helping us understand the company's ESG priorities, as well as giving us the opportunity to articulate our thoughts on their approach to material ESG issues. On Samsung in particular, we have since been in active engagement on climate and Net Zero.

However, Alphabet neither gave us the opportunity to ask our question nor contacted us after the AGM to discuss the issue further. As this is a significant holding and there are ESG issues we would be interested in discussing further, we will consider whether any further escalation is required during the 2023 proxy season.

Case study 28: **Co-filing a shareholder resolution on climate lobbying | NextEra Energy**

Issue

Please also see case study 23.

In 2022, NextEra announced its plan for 'Real Zero', which included emissions reduction targets and committed to significantly increase renewable energy deployment. Our subsequent engagement has focused on disclosure around climate policy and lobbying.

Following discussions with the company, we escalated the engagement to co-filing a shareholder resolution on the topic with a group of three shareholders.

Objective and approach

The objective of co-filing the shareholder resolution is mainly to highlight the importance of climate lobbying disclosure, especially in a US context, alongside directing NextEra to best practice guidelines and resources on the topic.

Outcome and next steps

Following the resolution filing, NextEra engaged in more constructive dialogue with the investor group. We were able to highlight climate lobbying reports from peers, including Dominion and NRG in utilities, alongside Exxon in energy. We also shared Ceres guidance on responsible lobbying standards and the global standard on responsible climate lobbying.

The investor group also arranged for NextEra to speak to an independent think tank on climate lobbying and assessment to help the company better understand its CA100+ assessment. NextEra indicated after the meeting that it would use the insights gained in its internal discussions on lobbying disclosure.

In early 2023, NextEra agreed to publish a further trade association report in late September 2023. The investor group therefore decided to withdraw the resolution for the 2022 AGM. To support the drafting of this report, NextEra has committed to liaising with the investor group co-filers in summer 2023.

THOUGHTFUL VOTING

We believe that thoughtful voting alongside constructive engagement with portfolio companies supports our objective of enhancing long-term investment returns for members. It also aligns with the Trustee's Investment Belief that "constructive engagement combined with thoughtful voting can protect and enhance investment value." Our global voting policy allows us to exercise our voting rights systematically, consistently, and in a way that responds to our thematic and stock-specific engagement priorities – in members' best interests.

Where poor practice is identified on the issues highlighted within our voting policy, a negative vote will be considered. Where we have serious and ongoing concerns on a specific issue, we may vote against the individual director we deem responsible. Where companies choose to deviate from accepted market practice, we will consider their explanation and apply professional judgement and intelligence in recognition that the situation at a given company can call for nuance and pragmatism. Companies can expect the local market and sector norms to be taken into account where reasonable.

Our preference is to engage with companies including, where necessary, exercising our voting rights to offer either support or sanction. However, where there appears to be a significant risk to the long-term value of our investment, we will consider selling our shares in the company.

Our Voting Policy

Our public-facing Global Voting Policy reflects Railpen's key corporate governance and sustainability themes in a way that is accessible to our portfolio companies, our external managers and our members. It builds on positions held in previous voting policies setting out our expectations for companies and on some of the themes outlined in the ICGN Global Governance Principles.

Railpen retains control of its voting policy and decisions, including where possible, over its underlying beneficial interests in pooled funds, and has centralised vote execution. The Sustainable Ownership team undertakes all voting and engagement activities including monitoring of the activities in our portfolios. The Global Voting Policy is reviewed every year in a discussion between the Sustainable Ownership team, the CIO and the Investment Management team.

Voting beyond listed equity

As a Scheme with many open defined benefit sections, a significant proportion of Railpen's portfolio is invested in listed equity. Railpen's Sustainable Ownership team correspondingly dedicates significant resource to the stewardship of our listed equity portfolio.

However, we also believe in exercising our stewardship responsibilities across the full portfolio. This includes playing an active role in any voting decisions in our fixed income and private markets portfolio, whether internally or externally managed. Where we are likely to have greater insight and influence on a particular issue or company – which is often the case for private market co-investments – we will directly engage to understand the issue at hand and inform our response.

Conversely, on bondholder resolutions in our externally-managed corporate bond portfolio, we will work closely with the external manager to help inform our voting decision. Due to the complex nature and direct financial implications of bondholder resolutions, our proxy research providers are often unable to provide relevant analysis. Therefore, we have an arrangement with the relevant fixed income external manager whereby we receive analysis to supplement our own internal view, and implement the vote ourselves.

Case study 29: **2023 Global Voting Policy Update**

Every year, the Sustainable Ownership team leads a post-season voting policy review with a view to defining the implementation for the following cycle.

Updates to each year's voting policy are informed by the following inputs:

- The list of observed issues and suggestions from the recent AGM season
- Any changes in our thematic engagement priorities
- Updates to the benchmark positions of our proxy voting provider
- Market developments and trends

The proposals, if taken forward, may require a change to the text of the voting policy and/or a change to the underlying voting policy application. We then publish the updated text on our website and send it on to our external managers and our largest direct holdings, requesting a pre-AGM meeting to discuss our voting priorities.

The Global Voting Policy for 2023-2024 was reviewed in Q3 2022. This year's Voting Policy, published in December 2022, included new lines on cybersecurity, workforce treatment and fair pay, mental health and climate transition plans. These lines will help us vote in a way which aligns with members' best interests.

The policy also tightened our lines on dual-class share structures, where we were more explicit about our intention to vote against the directors we deem responsible for these detrimental governance structures and how we would vary our vote depending on how egregious we considered the structure.

Finally, we view our voting policy not just as an opportunity to highlight how we intend to vote, but also any changes to our engagement priorities and approach. Our 2023 update noted that we would consider pre-declaring key votes for the first time during this AGM season.

External voting service providers

Internalising the management of Railpen's assets has meant greater in-house control of stewardship and voting activities and decisions. However, we use a number of external investment managers for some listed equity and fixed income mandates.

The only mandate where we delegate any of our voting rights is to Legal and General Investment Management (LGIM). This is an externally-managed passive equity in a pooled fund and Railpen has negotiated the right to direct the UK votes, given our particular interest in UK holdings in light of our extensive allocation and our role as a UK pension scheme. We also seek as far as possible to direct votes or otherwise influence the voting approach of our providers, using the following methods:

- Leveraging the annual publication of our Global Voting Policy to kick-start a conversation with our external asset managers and other voting providers, ensuring they are aware of the expectations we have of our portfolio companies and the key governance and sustainability issues that matter to us.
- Incorporating discussion of voting practices into regular manager or proxy advisory meetings, as well as frequent, ad-hoc discussions in-between.
- Working to influence the broader policy and industry environment, for instance proactively feeding into the PLSA's Annual Voting Guidelines.

We continue to use the process of producing Railpen's Implementation Statement as an opportunity to dig further into the voting behaviour of our external asset managers where they exercise votes on our behalf. Railpen, acting for the Trustee, informs its external managers of those criteria that we considered to constitute a 'most significant' vote to provide a framework for deciding which votes they would submit to us for the Implementation Statement section on their voting behaviour. The review process enables us to confirm:

- the extent to which the asset manager's voting priorities are aligned with our own
- how the asset manager instructed votes on major shareholder resolutions, and
- the asset manager's willingness to engage in dialogue on their approach to voting for the upcoming year

As detailed in case study 13 within the Systematic ESG integration section of this report, we observed changes in the approach of one of our managers during the 2022 process. We therefore engaged to ensure the manager's reporting would align with our requirements to assess their voting behaviour. Following a commitment to review their organisation-wide approach to vote reporting in light of our 'pivotal' feedback, we were pleased that the information we received in early 2023 was better aligned to our expectations.

We confirm the allocation of responsibility for voting rights regularly in our monitoring and review meetings with managers, as well as receiving weekly loan reports from our Middle Office team (please see section on stock lending).

Our voting processes and use of proxy advisers

Due to the number of holdings Railpen owns, we cannot attend every company shareholder meeting to cast votes. Railpen therefore votes by proxy through the Institutional Shareholder Services (ISS) voting platform, 'Proxy Exchange'.

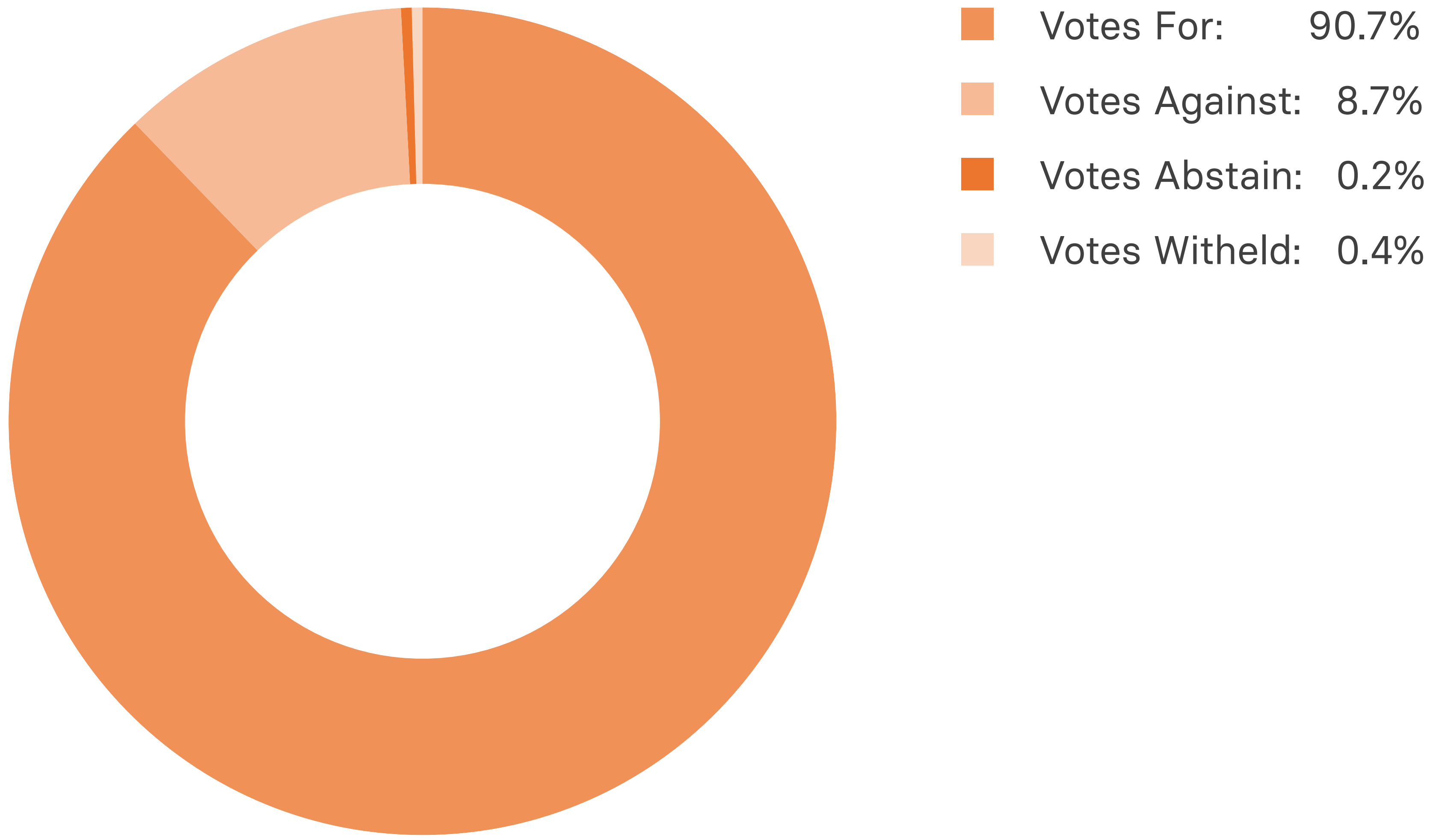
Railpen considers the recommendations provided by ISS in making our voting decisions, as well as research and information from other providers, including Glass Lewis, Eumedion and the Australian Council of Superannuation Investors (ACSI). However, Railpen makes all voting decisions and the Sustainable Ownership team works with the Investment Management team to apply professional judgement, recognising that the situation at a given company can be nuanced.

Railpen also uses the intelligence it gains from individual meetings and engagements with the company to feed into the final voting decision. Voting is agreed with the Investment Management team for companies held in the Fundamental Equities strategy, along with any controversial, high-profile votes that are discussed with the CIO.

2022 Voting Statistics

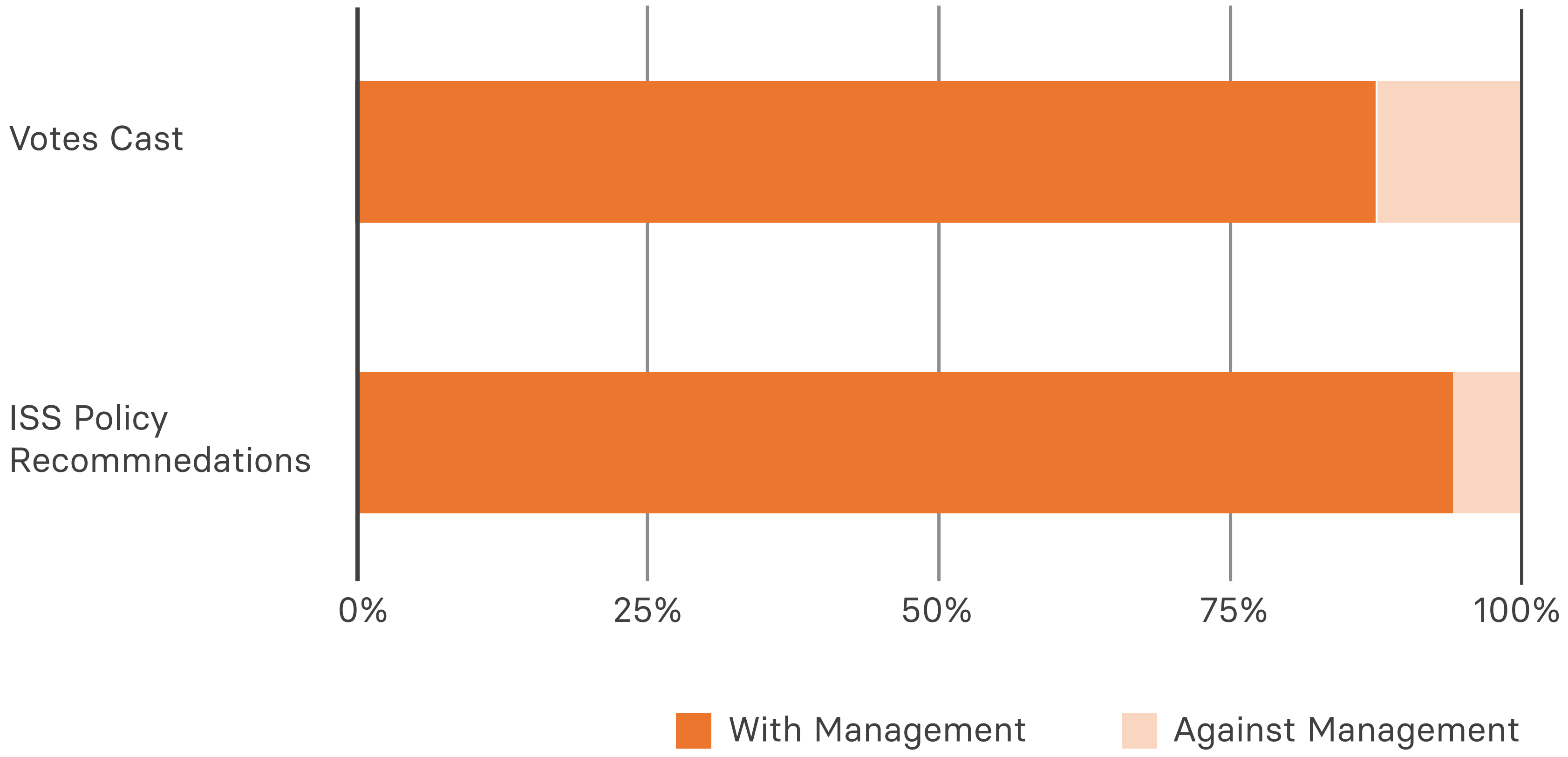
Number of meetings voted	1,601
Percentage of meetings voted	99.2%
Percentage of meetings with at least one vote against, withheld or abstain	55.0%

Voting Outcomes

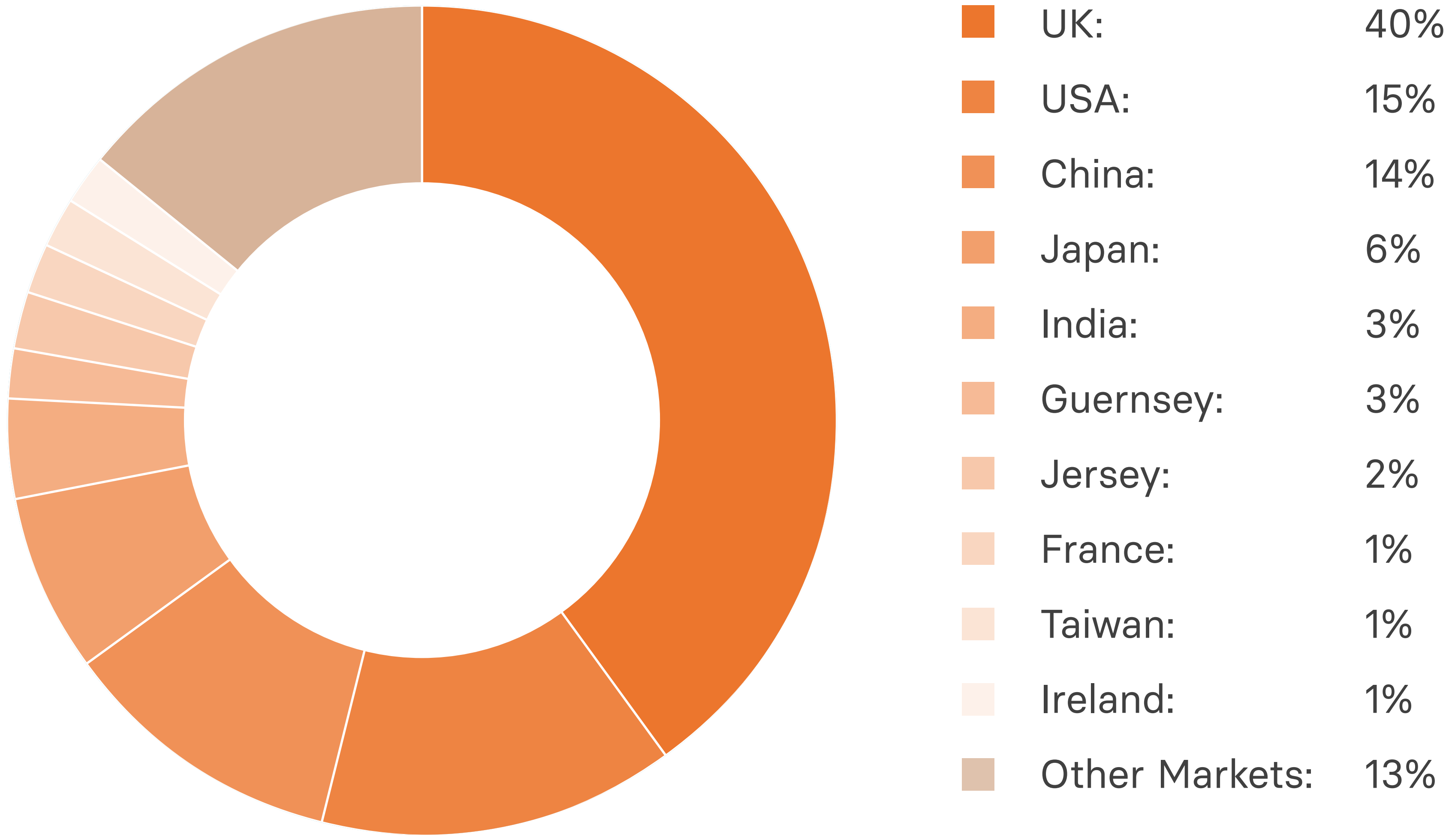


Alignment with Management

- Comparing vote cast alignment with management recommendations highlights similarities and differences between Railpen's governance philosophies and the investee company's approach to key corporate governance issues.
- The votes cast on Railpen's ballots during the reporting period are aligned with management recommendation in 89% of cases, while the ISS Benchmark Policy recommendations are at 95% alignment with management recommendations.

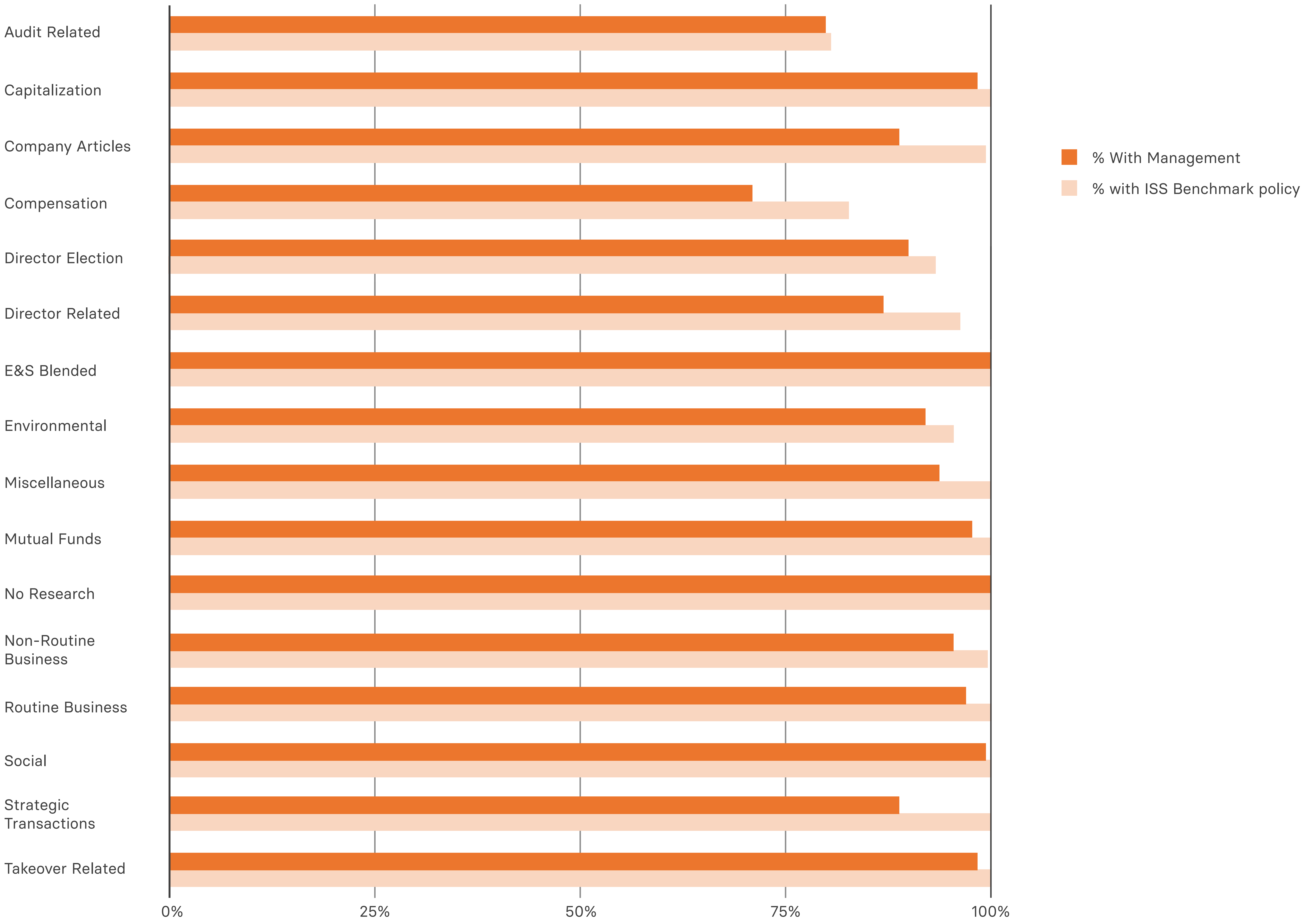


Meetings voted by market



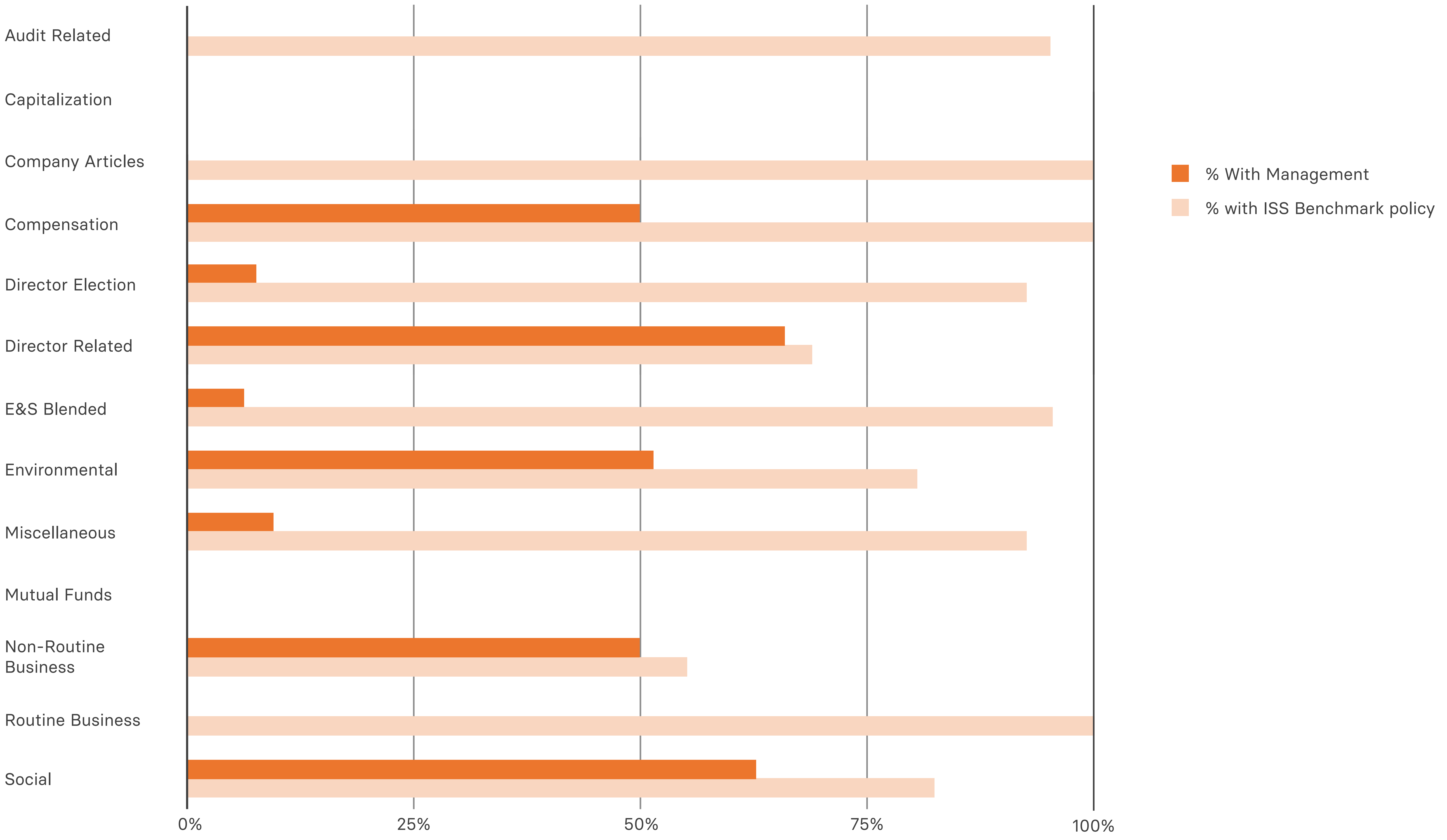
Votes cast on management proposal categories

- Comparing votes cast to management and ISS Benchmark Policy recommendations across the major proposal categories provides insight into the positioning of votes on proposals submitted by management against these benchmarks.
- Votes cast during the reporting period were least in line with management on Other/ Misc matters where only 71% of votes followed management recommendations.
- Across categories, votes cast on management proposals show the closet alignment to the ISS Benchmark Policy guidelines.



Votes cast on shareholder proposal categories

- Comparing votes in support of Shareholder proposals, ISS Benchmark Policy recommendations across the major proposal categories provides insight into the positioning of votes on proposals submitted by Shareholders against the aforementioned benchmarks.
- Votes cast during the reporting period show the highest level of support for shareholder proposals related to Corporate Governance, at 80% and the lowest level of support for shareholder proposals related to Audit Related, Company Articles, Routine Business, with 0% of proposals supported.
- Across categories, votes cast on shareholder proposals show the closet alignment to the ISS Benchmark Policy guidelines.



Most significant votes

Every voting decision is undertaken in a considered way. However, we prioritise our analysis and resource on those votes which are the most material to the portfolio and where exercising our vote is most likely to influence corporate behaviour in a way that benefits members.

Some votes are particularly important. In determining what constitutes the most significant vote [25], Railpen considers criteria provided by the PLSA in its Vote Reporting Template but also its own criteria which include:

- Votes in companies where Railpen holds over 5% or the equivalent local reporting trigger
- Votes at companies where the vote was escalated to the Chief Investment Officer (CIO) for decision
- Votes on issues that have the potential to substantially impact financial or stewardship outcomes
- Votes against the Report and Accounts/Chair of the Board
- Votes aligned with Railpen's priority corporate governance or sustainability themes. For 2021, this included:
  - Workforce treatment
  - Remuneration
  - Auditor tenure
  - Board composition and effectiveness
  - Climate change
  - Votes in support of high-profile shareholder resolutions

[25] *You can find the list of public statements on the Railpen website.*

Priority issue: Board composition and effectiveness

We believe that it is possible to hold portfolio companies to account on a broad set of principles and standards that support high-quality governance practices and structures. In light of the materiality of good corporate governance to sustainable financial performance over the long term, we will engage and use our voting rights where companies do not meet these standards. Considerations when voting for directors include independence, over-boarding, attendance, and responsiveness to shareholder concerns.

Case study 30: **Directing the vote at Meta's 2022 AGM | Board oversight and shareholder engagement**

Issue
Meta is a holding in our Fundamental Equities portfolio, and we are engaged in ongoing dialogue on material ESG issues. We are pleased with the company's willingness to engage on topics ranging from the activities of its Oversight Board, to its risk oversight practices and its approach to workforce treatment. We also welcomed its commitment to improving disclosure on these issues as well as on the effectiveness of board oversight.

Objective
A key focus of our voting and engagement over the past year has been not just encouraging Meta to improve disclosures outlining how its board exercises effective and independent oversight, but also to try to shift the dial on its practices. This includes long-standing unequal voting rights (which dilute the ability of independent shareholders to be effectively heard by company management) and the strength of board scrutiny of management.

Approach
Our pre-AGM discussions were helpful in emphasising the additional steps Meta's senior management have taken to further engage with independent shareholders. We also discussed the effectiveness of checks and balances on affiliated shareholder power, and to what extent Meta could demonstrate that it had responded to independent shareholders' concerns, as expressed through results at the previous year's AGM.

Although we supported management on some resolutions as a result of our ongoing dialogue, we withheld our support for the Chair of the Nominations and Governance Committee as well as voting in favour of shareholder resolutions asking for i) a shift to a one-share, one-vote arrangement and ii) the appointment of an independent Chair.

Outcome and next steps
The level of dissent (please note that this also takes into account the expected level of support from affiliated shareholders: although Zuckerberg owns 13% of Meta, he controls more than 50% of the company's voting rights) was a 7.3% vote against the election of the Chair of the Nomination and Governance Committee, 28% in favour of the resolution on a shift to one-share, one-vote and 17% in favour of the appointment of an independent Chair.

Although we were unsurprised by the relatively low level of dissent against the Chair's election – it is still rare for investors to vote against individual directors – the results on the resolutions demonstrated a clear preference from independent shareholders for these practices.

We held a post-AGM meeting to discuss the checks and balances on Meta's senior management team and affiliated shareholders specifically. We also used this as an opportunity to flag our new, stronger lines on companies with unequal voting rights in our 2023 Voting Policy (please see case study 29). However, we recognise that – by sheer virtue of the unequal voting rights that such shareholder proposals are protesting against – simply exercising our vote on this issue, or raising this issue in meetings, is insufficient at companies with entrenched unequal voting rights.

We will therefore continue to try to change the overall system through our work in leading the Investor Coalition for Equal Votes (ICEV) (please see case study 25). Although the Coalition's work to engage with pre-IPO companies and their advisers does not target Meta directly, we are hopeful that our policy advocacy with US policymakers may be successful in changing their approach where individual engagement and voting has not yet been successful.

Priority issue: workforce treatment

We believe that how effectively a company ensures its workforce is engaged, motivated and supported offers an important insight into its corporate culture, as well as being a vital ingredient for sustainable financial performance. We also believe that including workforce perspectives at the board-level can align the interests of shareholders, management and workers over the long-term. We will consider how well a company has treated its workers, as well as the thoughtfulness of its approach to workforce engagement, when considering how to vote.

Case study 31: **Voting in pooled funds | JD Wetherspoon | Board oversight and workforce treatment**

Issue

JD Wetherspoon is a holding in our passive pooled fund with LGIM. While this makes it harder to engage, we have negotiated the voting rights on UK holdings in this fund and so exercise voting decisions each year. We have had concerns for the last few years regarding a variety of corporate governance issues, leadership's willingness to listen to shareholder concerns and workforce treatment during the pandemic.

This, and the fact that JD Wetherspoon is one of the few UK listed companies with workforce directors, a key governance initiative of ours, (please see case study 33) means that we have been paying careful attention to the company over the last few years.

Objective and approach

As this is a relatively small holding in our passive pooled fund, we have prioritised engagement resource elsewhere until very recently (please see outcome and next steps below). However, we still wanted to make our views known. In 2020 and 2021, we previously voted against relevant board directors but abstained on the election of the Chair (who is also the CEO).

Due to entrenched governance issues (including a lack of gender diversity on the board, a combined Chair and CEO, and too few independent directors) ongoing workforce treatment issues, and the limited progress that had been made on both counts, we decided to escalate this to a vote against the Chair of the Board (CEO) in 2022. We also voted against the election of all members of the Nominations Committee for the first time.

Outcome and next steps

Some 9.6% of shareholders voted against the re-election of the Chair (CEO), while votes against Nomination Committee members ranged from 3.8% to 14.4%.

We were disheartened that the majority of shareholders do not seem to share our concerns (or at least are not making their views heard through exercising their vote).

In light of this outcome, and given the company's pertinence to our ongoing work on workforce directors and what a meaningful approach might look like, in 2023 we will consider engaging with the company. We will report on any progress achieved in next year's report.

Priority issue: Climate

In line with our recent Net Zero Plan, we will continue to evaluate and assess portfolio companies based on the quality and depth of their climate transition planning. We use data from Climate Action 100+, the Transition Pathway Initiative, Carbon Tracker and other sources to inform our CRIANZA analysis. We consider a broad range of voting outcomes when we have concerns about a company's approach, including voting against the re-election of the Chair of the Board, a Committee Chair or relevant director, and the Report and Accounts. We will consider on a case-by-case basis whether to support a climate resolution.

Case study 32: **Directing the vote at Nestlé's 2022 AGM | Climate accounting and audit**

Issue

Nestlé is a holding in our Fundamental Equities portfolio, and we are engaged in ongoing dialogue on the company's approach to ESG factors. Last year, we were pleased that Nestlé continued to make progress on climate reporting by fulfilling our request to incorporate relevant risks in its financial accounts. However, the company remains a globally significant GHG emitter and exposed to climate risks along its extensive supply chain. Consequently, we remained concerned by the absence of a reference to climate change within the Auditor's Report.

Objective

A focus of our voting and engagement over the past year has been improving disclosure on Nestlé's approach to climate accounting and how the auditor assesses this.

Approach

During our pre-AGM call, we commended the progress on climate accounting since our last conversation, but noted that there continued to be no explicit reference to climate change in the Auditor's Report. We were conscious that Nestlé's audit firm has incorporated climate considerations into the accounts of other companies that it services, including Royal Dutch Shell. Therefore, we communicated our expectation to see increased disclosure from the Audit Committee on its approach to climate risks and how it is engaging with the firm to improve assumptions/reporting. Ultimately, in recognition of Nestlé's openness to discussion and hesitance to reference climate change without further clarity on audit methodology from International Accounting Standards Board (IASB), we abstained (rather than voted to oppose) on the ratification of the auditor.

Outcome and next steps

The level of dissent against the approval of the financial statement and ratification of the auditor was below 1%. Nonetheless, Nestlé has since responded to shareholder concerns by including more detail on climate risks within its 2022 Financial Statements. Additionally, the Auditor's Report now contains explicit discussion on the impacts of climate risks and environmental commitments on future cash flows.

We look forward to continuing engagement with Nestlé and other major holdings in our portfolio on climate accounting – including as a lead investor with companies as part of the CA100+ initiative.

Vote disclosure

We publicly disclose our voting records for all company meetings since 1 January 2016 on a public website via a link from the voting records page on our website. Since October 2018 Japanese voting records have also been disclosed via this service.

Disclosure is subject to a waiting period of three months from the end of the month in which the meeting is held so that we can provide transparency without undermining our dialogue with companies. Although the voting rationale is not disclosed publicly, it is available to the Sustainable Ownership and Investment Management teams internally and is used to review voting decisions, which we may choose to share with companies when necessary.

The Trustee's Implementation Statement report – to be published in Summer 2023 – will also outline our voting behaviour in greater detail, including Railpen's "most significant votes". We also regularly provide case studies of votes on key issues across our member-facing communications; we believe that doing so can help members' savings feel more "real" to them and could help boost engagement with their pension more generally.

Stocklending

We believe that members benefit from the additional income stream that derives from participating in stock-lending programmes and also that stock-lending has benefits for market liquidity and efficiency. Our funds participate in various stock lending programmes administered by our Investment Operations.

The stock lending programme is governed by our Securities Lending Policy which is owned by the Sustainable Ownership team. Only securities which are very liquid are lent out and only in markets with more established governance procedures.

Our participation is subject to an overriding requirement that:

- No more than 90% of our total exposure should be out on loan at any one time. This means that there will always be a residual holding that can be voted.
- In addition we will recall stock to vote in exceptional circumstances where, for example, there is an important issue of principle or the voting outcome is believed to be close.
- We also have a standing instruction in place for a full recall of all Japanese stock out on loan ahead of the voting season.
- As Eumedion members, we recall our lent shares before the voting record date for a general meeting of a Dutch listed investee company, if the agenda for that general meeting contains one or more significant matters.

Additionally, we have in place a 100% recall for the Fundamental Equities portfolios. This enables us to use the full weight of our vote and influence on companies where we have a significant proportion of assets and where consequently we have significant value at risk.

There are daily checks on our total exposure and weekly reports from Investment Operations to the Sustainable Ownership team. This supports us in monitoring what shares we have out on loan and therefore what voting rights we are able to exercise at any given time.

WORKING TO TACKLE MARKET-WIDE RISK

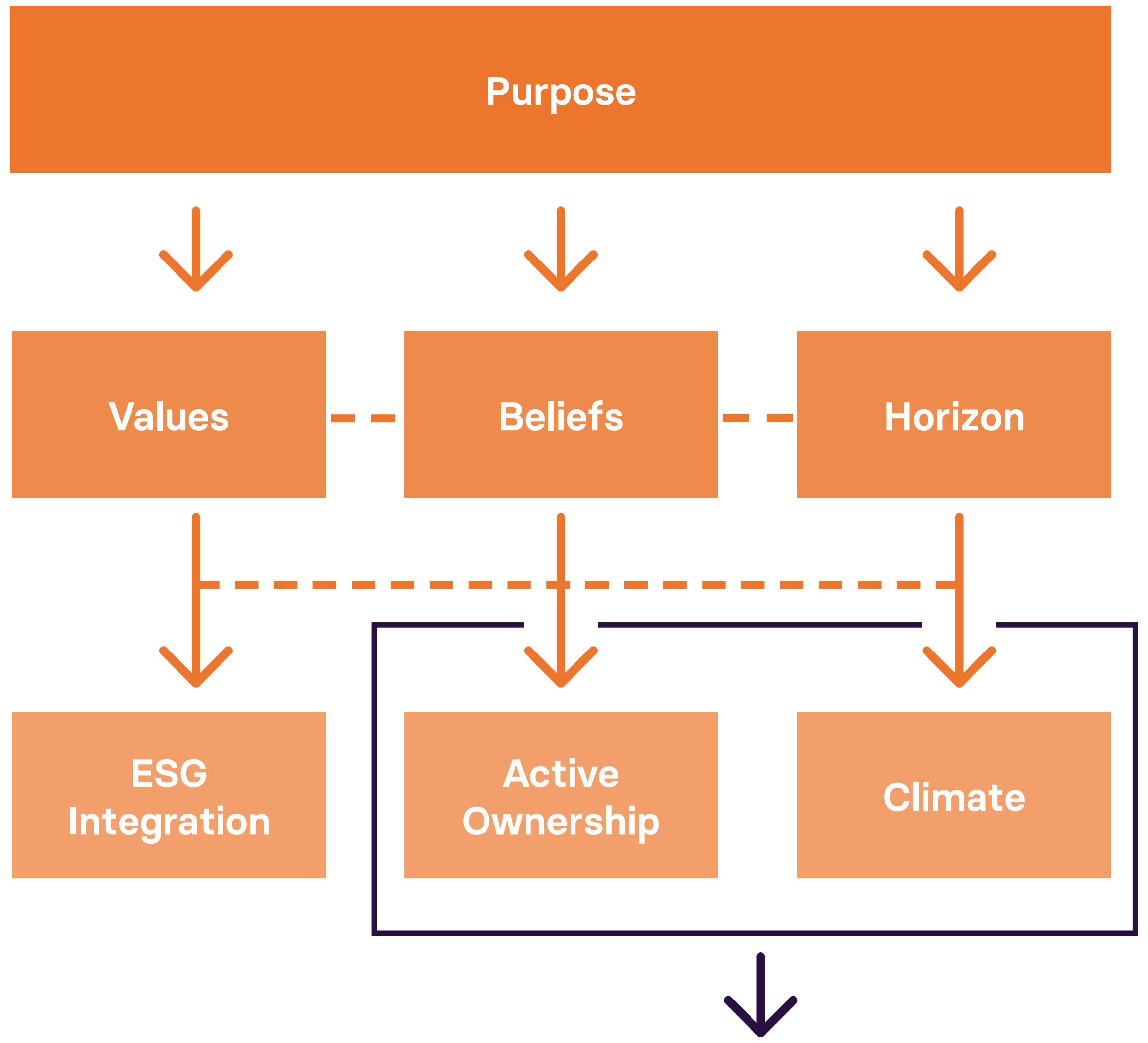
Our work on market-wide and systemic risk supports our work to manage the risks that are expected to materialise over the long-term time horizons that match the open nature of many sections of the railways pension schemes.

Our work to tackle market-wide risk includes our engagement and voting on thematic issues like climate change, biodiversity and workforce issues. This often takes place through our collaborative engagements. We also recognise that one of the most effective ways of managing market-wide risks is to influence market-wide solutions. This leads us to proactively engage on public policy issues, both in the UK and elsewhere, to ensure a supportive regulatory and policy framework for sustainable investment and stewardship.

Our market-wide activity takes place primarily through our Active Ownership and Climate workstreams.

Our participation in thematic engagement initiatives and public policy debates is underpinned by our core values of collaboration and acting as a pioneer.

How our purpose, values and beliefs drive market-wide work



- Market-wide stewardship
  - Direct policy intervention
  - Collaboration

Identifying material market-wide issues

The Sustainable Ownership team has a triage process, whereby we work with others across Railpen, including the Investment Management, Client Investment Solutions, Client Secretariat, Technical Services and External Relations teams to ascertain those market-wide policy developments that Railpen should prioritise in our thematic engagement work.

The criteria for prioritisation include:

- The materiality of the issue to our portfolio
- Alignment with trustee investment beliefs, or reputational risk to the Trustee
- The potential impact on or importance to members
- Our ability to make a difference
- Railpen expertise

In 2022 our thematic priorities were:

- The Climate Transition
  - Net Zero
  - Climate lobbying
  - Biodiversity and deforestation
- Worth of the Workforce
  - Workforce reporting
  - Fair pay
  - Employee voice and representation
  - Modern Slavery
- Responsible Technology
  - Cybersecurity
  - Governance of 'Big Tech'
- Sustainable Financial Markets
  - Unequal voting rights
  - The audit market

These thematic priorities then guide us in deciding which collaborative initiatives we should participate in – or where it might be worth taking a leading role, where we identify a gap in the market. Readers of our previous reports will note that the four top-level thematic priorities remain unchanged, while there have been only small evolutions in our sub-themes. This is because we believe that achieving impact on system-wide issues often requires dedicated resource and effort over several years.

It also helps us ascertain where and how we should seek to influence the policy debate. When considering a public policy intervention, we consider the potential impact on how we undertake sustainable ownership or whether it would help or hinder the market for sustainable investment.

We also consider the resources available and possible avenues for influence and impact. This includes:

- A direct response. This could either be through informal conversations with government officials or regulators, or a formal written response.
- A collective response. This includes working with other investors whose views are aligned with our own or seeking to influence and proactively feed through views to the relevant membership or advocacy organisations.
- A proactive approach. Initiating dialogue with the relevant policymakers and regulators, either individually or collectively.
- A reactive approach. Responding to a discrete consultation paper or call for evidence.

Based on these criteria, in 2022 our public policy work focused on debates such as disclosure on cybersecurity, the FCA approach to dual-class share structures in any move to a single segment listing regime, and regulation around climate and stewardship reporting by UK pension schemes.

The following case studies provide insights into our 2022 activity on thematic, market-wide priorities, including workforce issues and climate change.

Case study 33: **Our work on workforce issues in 2022**

Issue
Evidence shows that a committed, motivated and fulfilled workforce is fundamental to a company's long-term business success. However, there is a lack of clear and consistent disclosure on workforce issues – particularly on issues like worker voice and mental health. In last year's Stewardship Report, we discussed both our 2021 policy advocacy and our engagement activity on workforce issues (please see case studies 23 and 32 in our 2021 Report for further details) and committed to updating on next steps in this year's report.

Objective
Our 2021 work identified several issues on workforce topics:

- Confusion amongst portfolio companies regarding 'what good looks like' on workforce reporting from the investor perspective (and a concern about the plethora of corporate workforce reporting initiatives);
- A narrow approach to workforce engagement mechanisms, including workforce directors, exacerbated by companies' uncertainty regarding what investors would like to see on workforce directors and misperceptions around the appropriate role of a board director appointed from the wider workforce, and
- A lack of consistent and co-ordinated focus on workforce (and broader social) issues from some in the institutional investor community, despite its materiality to every portfolio company in an investment universe.

In 2022, we sought to refine our approach to workforce issues by focusing on tackling these three issues through our market-wide stewardship activity.

Approach and rationale
Given our previous work on workforce issues, as well as the comfort we gained from the fact that the members of the UK railways pension schemes have, for two years in a row, cited 'fair treatment of the workforce' as their top sustainable ownership priority (please see case study 5), Railpen felt that we were in a good position to support companies and other investors on stewardship activities around workforce.

In 2022, this included:

- Following up on our February 2022 workforce disclosure report with CIPD, PLSA and High Pay Centre with a December 2022 report 'Worthwhile Workforce Reporting: Good practice examples from the UK's biggest companies' to give concrete examples to portfolio companies of what good practice looks like (and why investors deem this good practice).
- Working with companies, investors, trade union representatives and academics to produce investor guidance (published April 2023) on 'Workforce inclusion and voice: investor guidance on workforce directors'. This guidance was supported by investor signatories with just under £500bn assets under management and will be used to encourage a more open company-investor dialogue on workforce directors, as part of broader approaches to workforce engagement.
- Presenting the interim findings of our Worthwhile Workforce Reporting work to DWP and being invited to join its Taskforce on Social Factors, a group set up to support scheme trustees to consider and incorporate material social issues into their investment decision-making. We believe that this will be an important mechanism for encouraging greater focus from UK asset owners on workforce issues, as well as other social topics.

Outcome and next steps
Although we felt that some companies had already improved their reporting in light of our previous work on workforce disclosure (please see last year's Stewardship Report), we sent our Worthwhile Workforce Reporting guidance to all those portfolio companies where we considered there to be additional scope for improvement. In 2023, we have held some follow-up conversations with companies, to incorporate learnings and suggestions into future reporting.

We have appreciated the positive response from the corporate and investor community on our guidance on workforce directors thus far. We recognise that the issue can provoke strong reactions and will report next year as to whether our attempt to navigate our way towards an approach that works for companies, investors and workers is proceeding as planned.

We will also continue to support the work of the Taskforce on Social Factors in 2023, including help with drafting guidance for trustees and scheme managers.

Case study 34: **2022 Climate transition planning | disclosure and best practices**

Issue
2022 witnessed the UK moving towards making publication of climate transition plans mandatory for asset managers, asset owners and listed companies as well as strengthening requirements to encourage consistency in published plans and increased adoption by 2023.

There were three key consultations in 2022 which related to this:

- The Transition Plan Taskforce (TPT) framework for sector-neutral private sector transition plans – led by the UK Centre for Greening Finance and Investment (CGFI) and E3G
- The Glasgow Financial Alliance for Net Zero (GFANZ) on financial sector transition plans
- International Sustainability Standards Board (ISSB) survey on climate-related disclosures – led by the International Financial Reporting Standards (IFRS)

Railpen issued responses to each of these consultations, making the case for transparent and standardised disclosure on corporate climate transition planning which also focuses on financial materiality, leverages the existing TCFD framework and aligns with upcoming frameworks including those produced by the TPT and ISSB.

Approach and rationale
Amongst other points made, the key Railpen messages and recommendations were to:

- focus on 'financial materiality', including a suggestion that guidance be provided from ISSB to companies on how to conduct materiality assessments, building on existing frameworks like SASB, and that companies should disclose the results of materiality assessments
- apply an 'inside-out' approach (also known to as 'double materiality'), requiring corporates to consider and report both those issues financially material to their business, and their own systemic impact on the environment, market and society
- prioritise mandatory basic disclosures first from companies, namely basic quantitative disclosure and standardised qualitative disclosure, followed by investors, due to the investors' dependency on corporate disclosure in implementing their own transition plans
- take a holistic approach to climate risk, opportunities and transition planning for corporates, that along with the above, also include i) explicit use and disclosure of science-based approaches and ii) 'Just Transition' and biodiversity considerations in entities' decarbonisation strategies, risk management and capital allocation approaches
- adhere to best practice principles on offsets and their intended use to address residual emissions versus reaching emissions reductions targets

Outcome and next steps
Through our work with our portfolio companies, industry and policymakers, Railpen has developed a good understanding of the quality and depth of data required to credibly assess corporate progress on climate action. We recognise that companies are required to produce significant levels of disclosure on their climate transition activities and therefore welcome disclosure standards that are standardised and aid investor and member understanding of complex topics.

We remain in active engagement with policymakers to ensure that developing climate disclosure and transition planning standards establish a robust, decision-useful, internationally consistent and comparable baseline. We are pleased to have had the opportunity to contribute our views to the UK Transition Plan Taskforce (TPT) sector neutral framework in 2022 and to have been invited as an official Delivery Group member to contribute to sectoral guidance being developed in 2023.

Railpen intends to work with the TPT, the Climate Financial Risk Forum (CFRF) and GFANZ to advocate for our proposed approach to climate transition planning disclosure.

Assessment of our effectiveness in tackling market-wide risk

We agree with the FRC that "it may be difficult to attribute an organisation's actions to an outcome as part of an initiative". On public policy, we use a number of Key Performance Indicators (KPIs) to try to help assess our influence. This includes whether any written response or view was mentioned in the government response, whether we had conversations with officials off the back of the response, whether our intervention was well-received by others in the industry or by media, and to what extent our specific proposals were incorporated into the final policy or regulation.

In addition to the outcomes mentioned in our case studies, we have also been pleased to note:

- an increased level of proactive media and speaking requests for our views on unequal voting rights, workforce reporting and climate change
- steps taken by proxy advisers to more fully consider and integrate workforce metrics into their standard advice, and the tightening up of advisers' approaches to companies with unequal voting rights[26]
- proactive requests from regulators and government officials to understand how Railpen undertakes and approaches issues including voting and net zero – this includes requests to join working groups such as DWP's Taskforce for Social Factors and the FCA's Vote Reporting Group, and
- ongoing requests from membership organisations in the sustainable investment space for Railpen individuals to join their formal governance and policy-making committees, as well as ad hoc working groups.

Railpen participation in relevant industry groups

Active Participation – industry and regulatory bodies
Railpen actively participates in those industry and regulatory groups and committees whose objectives are aligned with our own and which we believe can have the most impact on driving positive change in the market and policy environment for sustainable investment and effective stewardship.

In 2022, we became formally involved in a few new initiatives and industry committees where we thought we could make a meaningful contribution and achieve real change in alignment with our stewardship priorities and the Trustee's Investment Beliefs. This included:

- being appointed as Vice-Chair of the Global Investor Governance Network (GIGN);
- co-chairing a sub-group of the FCA's Vote Reporting Group;
- joining the Taskforce for Social Factors, and
- joining the Steering Group of the High Pay Centre and abrdn Fairness Foundation's work on worker voice

Organisation	Acronym/ Initialism	Committee	Remit of committee
British Venture Capital and Private Equity Association	BVCA	Responsible Investment Advisory Group	Discuss and advise on best practice in private market investing in the UK
Financial Conduct Authority	FCA	Vote Reporting Group (Co-chair, Sub-group 1)	Discuss and support production of industry guidelines on vote reporting
Global Investment Governance Network	GIGN	Vice-Chair	Discuss US and global corporate governance and stewardship developments
International Corporate Governance Network	ICGN	Global Stewardship Committee	Discuss and produce industry guidance and support on stewardship issues
Institutional Investor Group on Climate Change	IIGCC	Co-Chair, Investor Practices Advisory Group Chair, Bondholder Stewardship Working Group	Advise on a range of initiatives, including a Net Zero Investing Framework, that support investors' alignment with the Paris goals.

[26] *See, for instance, ISS' updates to their 2023 Global Benchmark Policy on unequal voting rights.*

Organisation	Acronym/ Initialism	Committee	Remit of committee
Occupational Pension Stewardship Council	OPSC	Engagement Group Member	Share best practice and collaboration on scheme stewardship issues
Pensions and Lifetime Savings Association	PLSA	Stewardship Advisory Group	Advise PLSA on sustainable ownership policy issues
Principles for Responsible Investment	PRI	Global Policy Reference Group	Discuss sustainable ownership policy issues and feed back on PRI draft submissions
Scheme Advisory Board	SAB	Responsible Investment Advisory Group (N.B. stood down in mid-2022)	Discuss LGPS RI issues
Taskforce for Social Factors	TSF	Taskforce Participant, sub-group 2	Support the development of industry guidance and other help for scheme trustees and managers on financially material social issues
Transition Pathway Initiative	TPI	Steering Committee	Provide strategic oversight of the Initiative
UK Pension Fund RI Roundtable	n/a	RI Roundtable	Discuss developments in (and responses to) ESG in the UK
International Sustainability Standards Board	ISSB	Investor Advisory Group	Discuss developments in ESG standards globally, presenting the investor perspective on the ISSB's strategy and approach

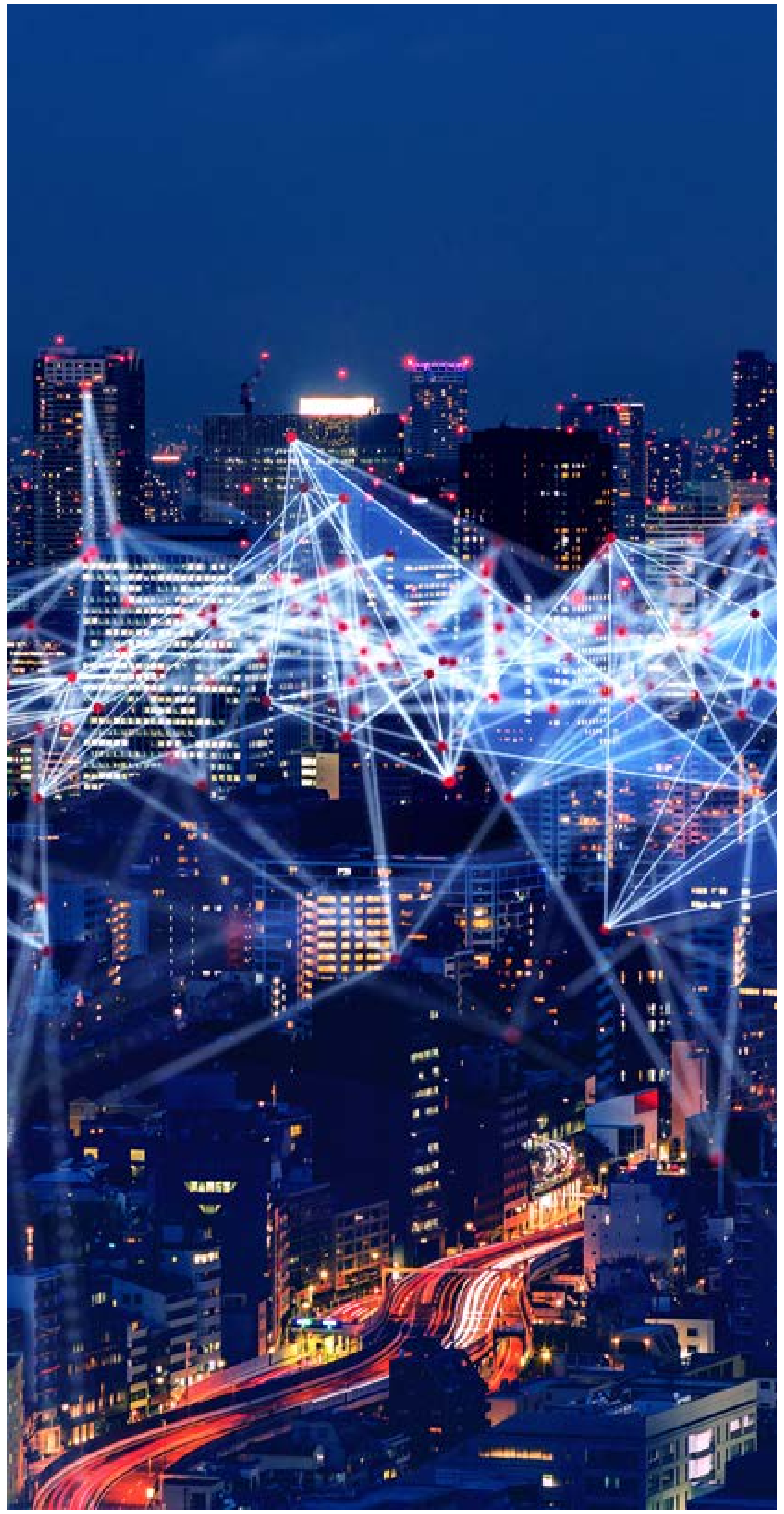
We keep our participation in such groups under constant review, to ensure that we continue to be able to dedicate the resource required to make a meaningful contribution on issues that are of relevance to our members. To this end, in 2022 we decided to step down from the LGPS Scheme Advisory Board Responsible Investment Advisory Group.

In addition, we support a member of our team to have sufficient time available to be Chair of NextGen, an organisation that promotes greater diversity in the pensions and investment industry, and a Trustee of the Social Market Foundation, a cross-party think-tank that provides research and public policy recommendations on responsible capitalism and other issues.

Other industry organisations – Railpen membership

Where resource and prioritisation constraints do not allow us to actively participate, we still believe there is merit in adding our voice to those sustainable investment initiatives whose priorities and objectives align with our own. Many such organisations also act as an important additional educational resource to contribute to the ongoing development of Railpen employees on sustainable investment and stewardship issues.

Organisation	Acronym	Geography
Council of Institutional Investors	CII	North America
Eumedion		Netherlands
Investor Forum		UK
UK Sustainable Investment and Finance Association	UKSIF	UK
Asian Corporate Governance Association	ACGA	Asia
Australian Council of Superannuation Investors	ACSI	Australia
Montreal Carbon Pledge		Global
Farm Animal Investment Risk and Return	FAIRR	Global
Workforce Disclosure Initiative	WDI	Global



GLOSSARY

- **Abstain.** When we vote at a company Annual General Meeting, we can vote 'in favour', 'against' or we can 'abstain'. Where we fully support a company, we will vote in favour. Where we disapprove of a company's behaviour, we will vote against. Where we do not feel fully supportive or comfortable with a company's behaviour, but also feel that voting 'against' is too strong at this stage, we will 'abstain'. This means we're voting neither for nor against. This approach leaves us with options open for the future. Please also see "Annual General Meeting" and "Voting".
- **Active (management).** An active manager chooses investments to either buy or sell, based on the objectives the manager is trying to achieve. In contrast to quantitative or passive management, there is usually a strong 'human element' involved. Either one person, or a team, will decide on individual investments. The same people might also create a broader approach that can be applied more generally to investment decisions. Please also see "Passive (management)".
- **Advocacy (or public policy).** Activities undertaken to influence policymakers and regulators. This includes meetings, roundtables, responding to government requests for evidence, either individually or through a membership body.
- **Annual General Meeting (AGM).** A meeting held once a year by a company with its shareholders, where important information is discussed and where shareholders are invited to vote on issues like how much directors should be paid, or whether the directors should be (re-)elected. Most listed or public companies must hold an AGM. Please also see "Abstain" and "Voting".
- **Decarbonisation.** An organisation's approach to reducing its production of greenhouse gas emissions.
- **Defined benefit (DB).** A pension scheme where the amount of pension you're paid is based on how many years you've worked for your employer and the salary you've earned.
- **Defined contribution (DC).** A pension scheme where you build up a pot of money that you can use to provide an income in retirement. The income you get depends on factors such as the amount you pay in and for how long, the fund's investment performance and the choices you make at retirement.
- **Divestment (or disinvestment).** The process of an investor selling all a company's debt or equity instruments, if already invested.

GLOSSARY

- **Debt (or credit).** If an investor buys a debt instrument, they loan capital to a firm. This entitles them to interest from the debtor company over a fixed term until the loan is repaid. Debt can be listed i.e. bought and sold on an exchange or private (private debt) i.e. it is a loan to a private company that is not listed on an exchange.
- **Engagement.** Communicating with a person or organisation with the aim of raising an issue or achieving change.
- **Equity (share).** Buying a share (or equity instrument) gives the owner (shareholder) an ownership right/stake in the firm in return. The owner has the right to vote and a claim on future profits that can be distributed to the shareholders, for example through dividends. An equity instrument can be listed (or public) i.e. bought and sold on a stock exchange or private (private equity) i.e. it is a stake in a private company that is not listed on an exchange.
- **ESG.** The collective term for referring to "environmental, social and governance" issues. Some examples are given below.

Environmental	Social	Governance
Climate risk	Community Relations	Board Structure
Carbon emissions	Employee Relations	Executive Remuneration
Energy Usage	Health and Safety	Bribery and Corruption
Raw Material Sourcing	Human Rights	CEO/ Chair Duality
Supply Chain Management	Product Responsibility	Shareholder Rights
Waste and Recycling	Workforce Diversity	Vision and Business Strategy
Water Management		Voting Procedures

- **ESG Integration.** Incorporating environmental, social and governance (ESG) considerations into investment decisions regarding, and analysis of, the companies we invest in.
- **Exclusion.** Not allowing the purchase of any of a company's debt or equity instrument and its inclusion in an investment portfolio.
- **Greenhouse gas emissions (GHGs).** A greenhouse gas is a gas that, when in the Earth's atmosphere, traps heat. Examples of these gases include carbon dioxide (CO_2) and methane (CH_4). The more of these gases that are produced, the more heat gets trapped within the Earth's atmosphere, leading to global warming.
- **Infrastructure.** The essential physical systems that support companies or individuals, regions or countries (economies). Examples include: communication networks, transportation systems such as roads and rail, water and sewage systems, and electricity plants.
- **Passive (management).** Please also see "Active (management)". An investment management style that very closely follows a market index which is an externally chosen pool of assets. Examples of a market index include the 'FTSE 100', which is a collection of the largest and most valuable UK companies.
- **Portfolio.** A collection of financial investments, which could include equities, credit or infrastructure or other investments.
- **Net zero.** Cutting greenhouse gas emissions to be as close to zero as possible and doing things that absorb carbon dioxide from the atmosphere too. Please also see "Greenhouse gas emissions".
- **Risk-adjusted returns.** A measure that takes into account how much risk is taken to achieve a particular return.
- **Shareholder.** The owner of shares (equities) in a company.
- **Signatory (signatories).** An organisation that has signed up or committed to an initiative.
- **Stewardship.** Monitoring, understanding and looking to influence the behaviour of the companies we invest in. Stewardship involves using tools such as engagement, voting and advocacy as ways to shape corporate behaviour.
- **Voting (a vote).** Being a shareholder in a company (usually) gives us the opportunity to vote on company matters at meetings such as an Annual General Meeting (AGM). The issues we can vote on include executive pay, the election of board directors, a climate change plan, and the financial report and accounts. Please also see "Abstain" and "Annual General Meeting".

APPENDIX 1: ALIGNMENT WITH THE UK STEWARDSHIP CODE PRINCIPLES

Principle		Section of Report
1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.	Our philosophy and approach Stewardship in the interests of members
2	Signatories' governance, resources and incentives support stewardship.	How our structures enable effective stewardship
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	How our structures enable effective stewardship
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	Working to tackle market-wide risk
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Foreword Appendix 2 – Internal assurance Our philosophy and approach How our structures enable effective stewardship Working to tackle market-wide risk

Principle		Section of Report
6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	Stewardship in the interests of members
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	Systematic ESG integration
8	Signatories monitor and hold to account managers and/or service providers.	Systematic ESG integration Thoughtful voting
9	Signatories engage with issuers to maintain or enhance the value of assets.	Impactful engagement
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	Impactful engagement Working to tackle market-wide risk
11	Signatories, where necessary, escalate stewardship activities to influence issuers.	Impactful engagement Thoughtful voting
12	Signatories actively exercise their rights and responsibilities.	Thoughtful voting

APPENDIX 2: INTERNAL ASSURANCE

Railpen's approach to assurance for this report built upon the approach in previous years to support the production of our Stewardship Reports. We decided to remain with the internal assurance approach, submitting aspects of the Stewardship Code response for review by Railpen's in-house Internal Audit team. This team is independent, objective and has an extensive track record in providing challenge and insights across the wider Railpen business, in conformance with the Chartered Institute of Internal Auditors 'Guidance on Effective Internal Audit' (The Code).

We opted for an internal review for this Report owing to the extensive expertise of our Internal Audit team. We felt that this team was better able to understand the nature of the work we do and the expectations we are required to meet, than the alternative services currently available in the external assurance market. Additional comfort with this approach comes from the changes undertaken by the Internal Audit team in 2021 to ensure that the quality of service provided to Railpen remained at a high standard with continual improvement[27].

The approach for this Report

Last year's assurance focused on a sample of case studies across the Report and we have decided to follow the same approach this year. The case studies in the Report largely focus on providing practical examples that illustrate Railpen's stewardship impact and effectiveness. This involves making certain statements and claims around outcomes and the Railpen team felt that it would therefore continue to be useful to undertake assurance and ensure we could justify these statements.

Case studies were selected for assurance according to the criteria below:

- Is Railpen making particular claims about its impact, effectiveness and the outcome achieved?
- If so, to what extent would a claim that does not abide by the FRC's "fair and transparent" reporting standards present a risk to Railpen?
- Does the case study cover an issue which is a priority for Railpen's Sustainable Ownership work or more broadly?

The Sustainable Ownership team was also keen to ensure that the case studies it chose represented a fair sample of its activity across direct engagement, collective engagement, policy and market-wide work, and voting practices.

For each case study selected, the Internal Audit team:

- Reviewed it against the key principles of the Code and assessed whether the 'reporting expectations' had been met or could be enhanced;
- Evaluated the statements made by Railpen in the case studies and reviewed the evidence the organisation held to support making these specific disclosures; and
- Reviewed it to assess whether the statements made supported fair and transparent reporting under the Code.

Internal Audit also reviewed a final copy of the full Report prior to submission and provided challenge and an independent view on the assertions made more broadly.

The findings

Internal Audit was comfortable that the case studies, as documented, represent a fair and balanced assessment of the work undertaken by Railpen in 2022 and statements are supported by clear evidence. Internal Audit identified a number of enhancements to the report to ensure that the 'reporting expectations' are met, as well as providing challenge to statements and disclosures made. Following productive conversations with the Sustainable Ownership team, a number of recommendations were raised and applied within the final version of the report.

[27] *Please see last year's Stewardship Report for further detail on these changes.*

APPENDIX 3: INDEX OF PRI PRINCIPLES

The Railways Pension Trustee Company Limited has been a signatory to the PRI since 2010. We agree that transparency around how an investor undertakes its responsible investment activities is important for raising standards across the industry and for demonstrating application of the PRI Principles. We support the PRI's decision to review its signatory reporting programme, including a reporting break in 2022 and look forward to contributing to its follow-on 2023 work on Equivalency Proof of Concept for Stewardship.

We continue to consider and apply the six PRI Principles, and map this Report to the Principles here.

PRI Principle	Mapping in this Report
Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.	Systematic ESG integration How our structures enable effective stewardship
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	Stewardship in the interests of members Impactful engagement Thoughtful voting How our structures enable effective stewardship
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Impactful engagement Thoughtful voting Working to tackle market-wide risk

PRI Principle	Mapping in this Report
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.	Working to tackle market-wide risk Our philosophy and approach
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.	Collective engagement Working to tackle market-wide risk Our philosophy and approach
Principle 6: We will each report on our activities and progress towards implementing the Principles.	All sections For climate change reporting, please see also the RPS TCFD Report (publication forthcoming)

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