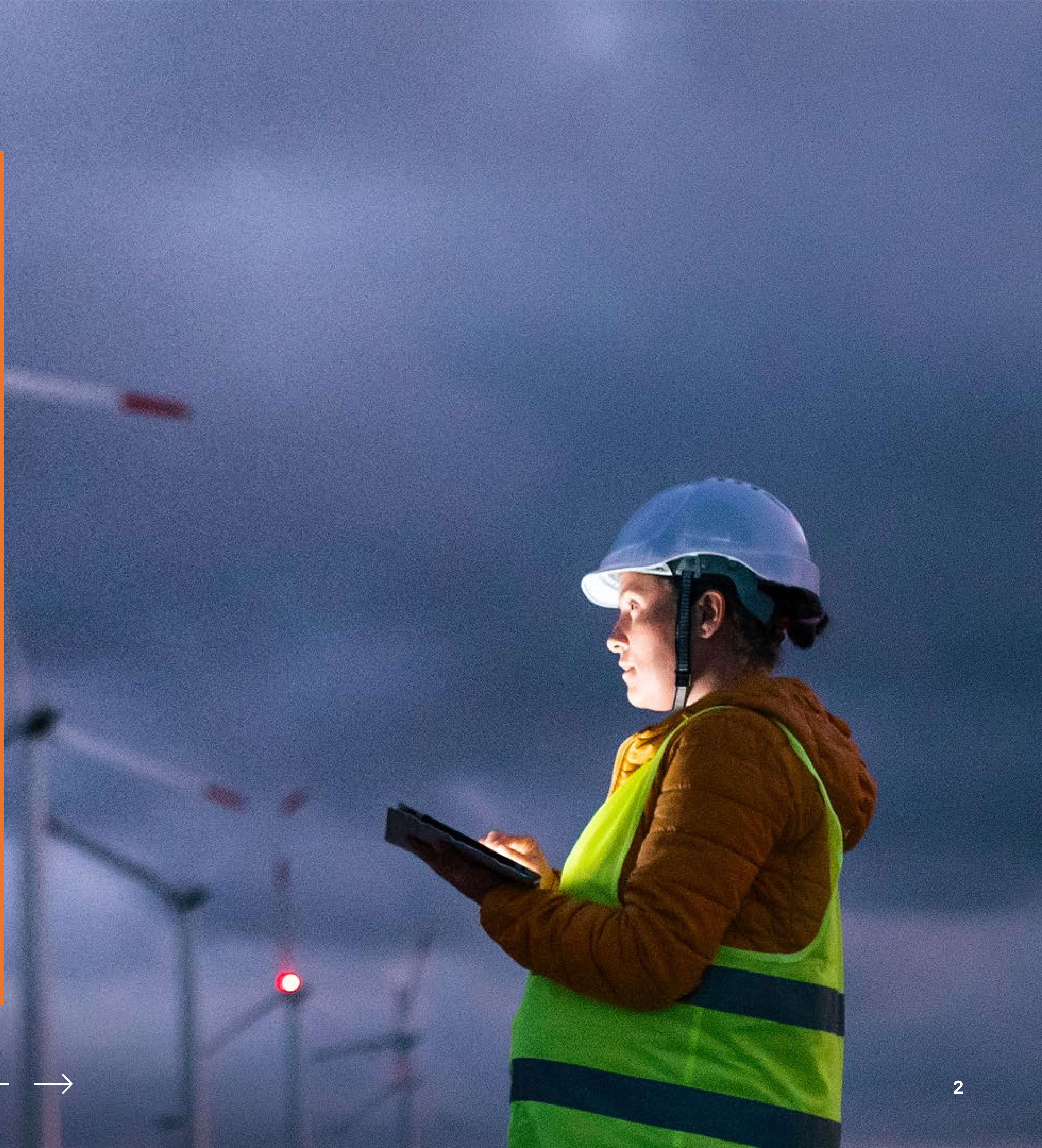
STEWARDSHIP REPORT 2021

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 UK Stewardship Code – and other similar initiatives around the world. We were one of the first signatories to the original UK Stewardship Code and were delighted to be among the first wave of signatories to the updated Code last year. We think that these initiatives are an important 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.

In 2021, the Trustee updated its Investment Beliefs. These fundamentally guide and influence everything the Trustee and Railpen does, including the sustainable ownership activities. The last year was also one of significant change for Railpen. It transitioned to a new organisational structure and rearticulated our purpose under a new brand that brought together our Pensions Administration, Fiduciary and Investment Management Businesses. Railpen also worked hard to support colleagues and members throughout the ongoing pandemic, and also announced a commitment to be – and roadmap for achieving – Net Zero by 2050 or sooner. These developments reflect the fact that Railpen has one client and further support our role as an effective steward of capital. We were delighted to be recognised for our sustainable ownership work in 2021 through winning Investment & Pensions Europe's ESG Award 2021.

As our 2021 Stewardship Report goes to publication, Russian military forces continue to occupy parts of Ukraine, many of whose citizens have been displaced or remain vulnerable in cities under siege. We join the vast majority of the global community who are deeply concerned for all involved in the conflict and hope for a swift and peaceful resolution. The systemic nature of geopolitical risks, and the global response to the war in Ukraine, underlines the importance of investment stewardship. As articulated in the updated Trustee Investment Beliefs, issues like these have a bearing both on the here and now, and the world into which members retire.

Chris Hannon
Chair of Trustees

John Chilman
CEO Railpen

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 Railpen client-facing, member-facing and communications teams across the Railpen business, while senior stakeholders support and have signed off the full report including a representative of the Trustee. 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 3.

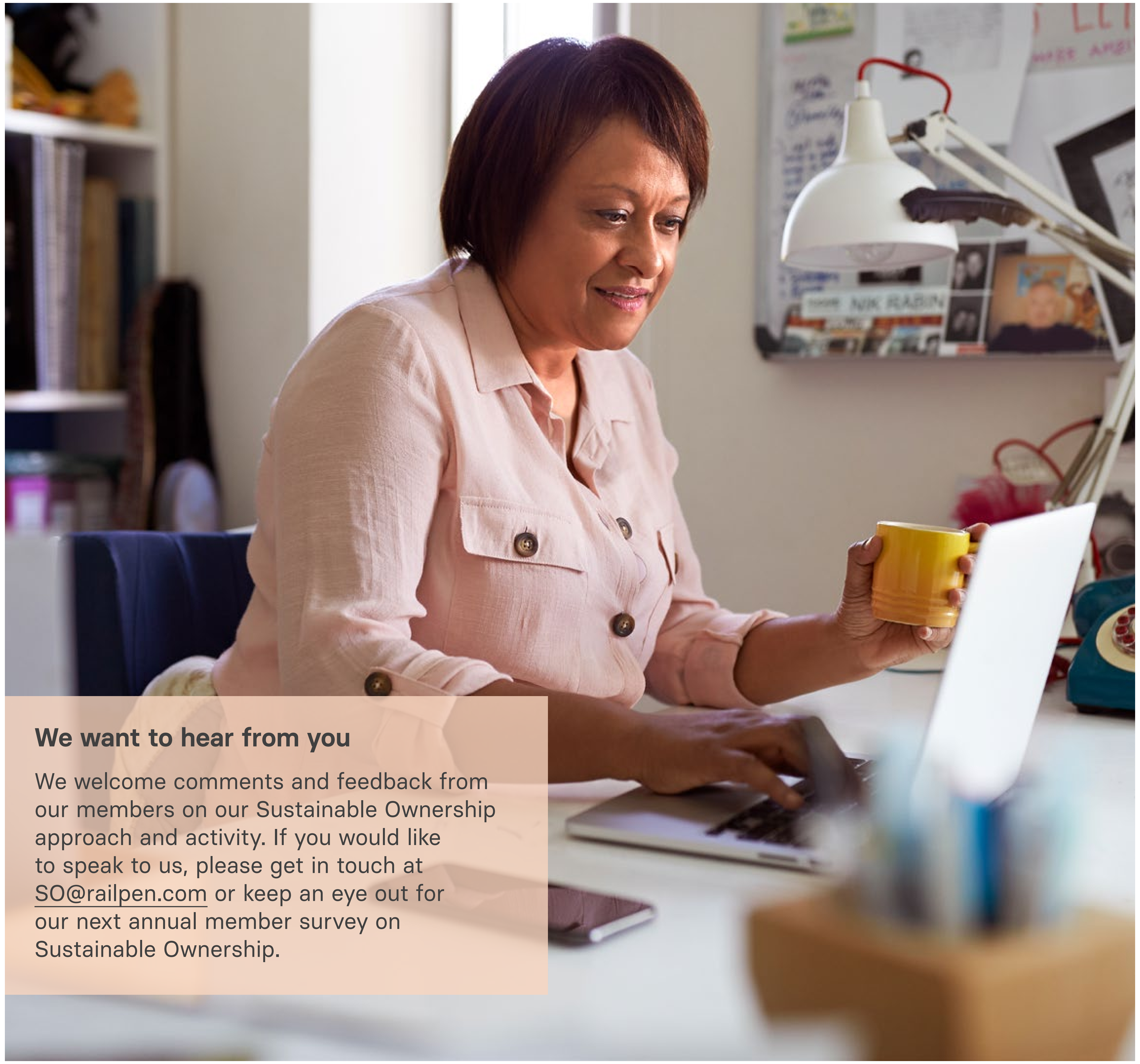
How we have made this report accessible to members

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

We 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 that can be found on page 77.

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, in recognition that most members will be viewing this on computer or mobile devices.

As with last year's report, we will also be condensing the key findings of this report into a short member-focused Sustainable Ownership Member Review, which will be published later in 2022.



We want to hear from you

We welcome comments and feedback from our members on our Sustainable Ownership 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 over 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 c. £37 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's plans are based on the expectation that it will be paying the pension of an eighteen-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 2021 rebrand to Railpen

In September 2021, after several years of transition and service improvement, our Pensions Administration Business (RPMI) and Fiduciary and Investment Management Businesses (RPMI Railpen) were brought together under one name, Railpen.

The decision to rebrand was taken in part for reasons of 'brand recognition'. The Railpen brand is particularly strong in the investment sector, and this helps Railpen convey the scale of what we do and the importance of who we do it for. This also reflects the fact that we have one client, and supports us to deliver better outcomes for members through, but also beyond our stewardship work on their behalf.

Railpen also undertook an organisational restructure, to better align business units and reporting lines on the success factors that matter most for delivering on its purpose. We discuss this in more detail in the section on How our structures support effective stewardship.

The role of stewardship in achieving our purpose

The Trustee's purpose is to pay members' pensions securely, affordably and sustainably. Railpen supports the Trustee in delivering this objective and 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 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.

We leverage our significant assets under management to invest wisely and influentially, guided by convictions and a clear set of investment beliefs. This scale allows Railpen to benefit from an expert in-house Sustainable Ownership team, working closely with our in-house Investment Management team, 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.

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:

- **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.

The importance of collaboration, courage in our convictions and accountability to fulfilling our purpose are reflected in the new Trustee Investment Beliefs[1], and accompanying narrative, including the following:

Railpen's mandate is to advise on and manage this investment 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.

[1] *Please see case study 2. Please see Appendix for full details of the new Investment Beliefs.*

As with all the Trustee Investment Beliefs, these guide and shape everything Railpen does; taken together with Railpen's values, they drive our stewardship approach 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, 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. Please see case study 1.
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 2021, this included early steps in our work to create and lead collaborative engagements on dual-class share structures and workforce representation and voice. Please also see case studies 33 and 34.

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 work hard to support pension schemes and other investors to help raise standards across the sector. This aligns with our values of being pioneering and collaborative.

Case study 1: **Demonstrating our values | Working to raise industry standards in 2021**

The Trustee and Railpen recognise our responsibility as a leading and large UK pension scheme to try to shape the policy and regulatory framework in a way that supports sustainable investment by investors. We collaborate with others to raise industry standards and support those schemes without extensive resources or in-house support on sustainable ownership issues.

To this end, we have played a leading role in a number of investment industry initiatives aimed at providing both formal and informal practical guidance to other schemes with the aim of raising overall industry standards. In 2021, this included:

- Our role as one of the first members of the government's **Occupational Pension Stewardship Council (OPSC)** that seeks to raise stewardship standards and provide a forum for schemes to share experiences and learn from each other. In particular, Railpen is a member of the steering "Engagement Group" and suggested, and now chairs, an OPSC "Alphabet" working group that provides a forum for asset owners to interact with key UK financial services regulators. As well as regularly contributing examples of good practice for others in the group to consider, Railpen was also one of a few pension schemes to feed in early thoughts to the drafting of the 2021 DWP consultation on stewardship reporting.
- Our appointment to the **International Corporate Governance Network (ICGN)'s Global Stewardship Council (GSC)** that produces guidance for investors to support effective stewardship. Railpen proposed, and is co-leading, the drafting of practical industry guidance on how to influence public policy and undertake effective "beta activism" (to be published in 2022). Railpen has also proactively contributed to the drafting of the **ICGN's Model Mandate guidance** which provides practical support and example clauses on stewardship and sustainability for asset owners to include in their legal documents.
- Our co-chairing of the **Institutional Investors Group on Climate Change (IIGCC)'s Investor Practices Advisory Group** which produces toolkits and guidance for investors on how to manage climate risk and align portfolios to net zero. We are also active members of the **Paris-Aligned Investment Initiative's Global Steering Group** and **Co-Chairs of the IIGCC's Net Zero Stewardship Toolkit Working Group**. Separately to this, Railpen had produced its own **"Say on Climate" internal guidance**, in advance of the 2021 voting season, to support the team on how to vote on climate resolutions in the absence of available broader industry guidance. We shared this guidance with other investors who were looking for support and input for their own voting approaches.

We also fed into the **Pensions and Lifetime Savings Association (PLSA) 2021 Stewardship and Voting Guidelines** and the **PLSA/ Association of British Insurers (ABI)/ Investment Association (IA) Carbon Emissions Template**. The template, which is the first of its kind, ensures schemes can meet their reporting obligations under new **Taskforce on Climate-related Financial Disclosure (TCFD)** regulations.

We supplement these activities through regular participation in webinars to support scheme investors. These include: the **PLSA 2021 ESG Conference** – where we provided an overview of our approach to stewardship; an **Financial Reporting Council (FRC) and Involvement and Participation Association (IPA) event on workforce engagement**; a '**Lunch and Learn**' on how investors approach climate accounting for Carbon Tracker employees; and the **Defined Contribution Investment Forum (DCIF) Conference**, where we co-ran a breakout session on scheme stewardship.

We understand that the PLSA's Voting Guidelines continued to be one of their most downloaded documents in 2021, and that the PLSA received a few member requests for the recording of our ESG Conference session by attendees, so that they could share it with their Trustee Boards and scheme managers.

Stewardship in line with the Trustee's Investment Beliefs

Each of the Trustee's in-depth Investment Beliefs provide 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 help 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. Case study 2 discusses the process, outcomes and implication for our stewardship work in more detail.

Case study 2: **New Trustee Investment Beliefs**

In 2020, the Trustee and Railpen agreed to work on a new set of Investment Beliefs that could better reflect changes in our shared approach to investment. The Beliefs were published in December 2021 and will guide Railpen's approach to investment issues generally, as well as Sustainable Ownership specifically, from 2022.

The full list of Investment Beliefs is in Appendix 2, and together with the accompanying narrative provides further details on how Railpen ensures complete alignment from the Trustee to the member. Several Beliefs are relevant to our Sustainable Ownership work, including: the need to exploit the advantages of long-term, focused investment decision-making; the critical role managing asset-liability risk plays in a scheme's long-term success; and the importance of choosing and structuring investments in a way which is aligned to a scheme's long-term objectives. Sustainable ownership considerations play an important role in, and are shaped by, the functions referred to in the Beliefs.

The fourth Investment Belief focuses specifically on the approach to Sustainable Ownership:

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 to 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 Railpen team worked closely with the Trustee Board and others to shape this Belief. The key implications for our Sustainable Ownership work from 2022 onwards are as follows:

- A continued emphasis on Sustainable Ownership and ESG issues as financially material factors
- A new emphasis on the materiality of ESG to scheme liabilities as well as assets
- Inclusion of both bottom-up but also top-down or systemic ESG approaches, in recognition of our role as a universal asset owner
- The importance of capital allocation and not just engagement alone, and
- Explicit mention of the role of Sustainable Ownership in having a positive impact on the world members retire into

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, the 2021 strategy for the Fiduciary team set out a series of Value Statements, which measure the wider team's success against delivery of its core purpose and support the Trustee and employers in securing our members' future. These value statements are:

- Increased probability of all sections being fully funded, leading to greater security of members' benefits, reduced funding volatility and increasing value for money
- More effective and efficient utilisation of investment risk
- Better support and strategic advice to Pension Committees, The Trustee, its Committees and Railpen investment committees
- Improved alignment between Pension Committees, Employers, the Trustee and the Investment Management Business
- Stronger external stakeholder management
- Perform strong oversight of the investment teams on behalf of the Trustee, the Asset Management Committee, Employers and Pension Committees

For Sustainable Ownership, this filtered into the following objectives for 2021:

- Clear accountabilities for the Sustainable Ownership team, working towards an agreed strategy
- Support other teams in effective identification and management of idiosyncratic and systematic ESG risks so that we increase the likelihood of all sections being fully funded, and we improve the effective and efficient utilisation of investment risk
- Support our client with high-quality services and communication
- Improve internal and external Sustainable Ownership communications and engagement

All of these were intended to support us in undertaking effective stewardship on members' behalf. Progress in 2021 against these objectives is outlined in the table on the next page. We were also delighted to achieve **Investment & Pensions Europe's (IPE) ESG Award 2021.** In reaching their decision, the judges citied our Net Zero commitment and roadmap, our approach to voting and work on workforce issues.

IPE & AWARDS 2021 WINNER ESG

Objective 1	Clear accountabilities for the Sustainable Ownership team
Progress in 2021	• Three-year Sustainable Ownership strategy, reviewed annually and complemented by separate one-year strategies for the Active Ownership, ESG Integration and Climate workstreams • Each Sustainable Ownership workstream has clearly-articulated project management and support responsibilities for individuals • Use of Railpen-wide 'Jobs on a Page' (JOAP) approach for each team member, including key accountabilities, objectives and priorities across each workstream • Sector and company-specific accountabilities for each individual in the Sustainable Ownership team
Next Steps	• All Railpen employees' 2022 JOAPs to be explicitly linked to Railpen's strategic goals, aligning team members' priorities and reward to our purpose • Fiduciary team JOAPs to be linked to clear workstream milestones

Objective 2	Effective identification and management of idiosyncratic and systemic ESG risk
Progress in 2021	• Service provider review (voting implementation and advice) • New proxy voting tools, including internal 'Voting Views' guidance on the Railpen 'house view' on key issues • New Manager Assessment Framework (MAF) for review and monitoring of external managers' approaches to stewardship, climate change and ESG integration • Proprietary climate risk/opportunity company assessment process (CRIANZA)
Next Steps	• New engagement objective tracking module and database • Shift towards a proprietary ESG ratings approach • Create new ESG data tool • Production of regular thematic stewardship papers on key systemic issues • Implement Net Zero voting framework

Objective 3	High quality client communications and services
Progress in 2021	• Set up Sustainable Ownership Client Forum • Worked with Investment Risk Management team to provide quarterly Sustainable Ownership reporting in the new Investment Risk Report • Regular interactions with Pension Committees and Trustee Board on Sustainable Ownership • Published Sustainable Ownership Member Review 2020 *Please also see case studies 4 and 5.*
Next Steps	• Institute quarterly catch-ups with Client Investment Solutions and other client-facing teams on Sustainable Ownership issues • Review Internal Communications approach on Sustainable Ownership

Objective 4	Improve internal and external Sustainable Ownership communications
Progress in 2021	• Sustainable Ownership "key messages" workshop with external consultants • Weekly meetings between Sustainable Ownership and External Relations and Communications team • New climate internal newsletter • Created new guidelines for Sustainable Ownership communications
Next Steps	• Sustainable Ownership Communications strategy for 2022 • New Sustainable Ownership pages for the website (as part of overall refresh) • Working with the External Relations and Communications team on new communication assets, for instance easy-to-digest videos on our Net Zero work and Voting Policy

COVID-19 has presented significant challenges to Railpen and its way of working, as with many other organisations. However, we remain determined to do what we can to support our employees so they can better help secure our members' future. We discuss a key phase of our "Coming Back Better" programme in case study 3.

Case study 3: **Our Inclusion and Diversity Council | 2021 work**

In last year's Report, we discussed how the 2020 COVID-19 crisis had given fresh impetus to our work to align Railpen's culture to its purpose and the initiation of our "Coming Back Better" programme.

A key part of this was setting up an "Inclusion and Diversity Council" (I&D Council) which brought together individuals from across Railpen and at every level of seniority to drive forward a programme of work to create an inclusive environment that enables all individuals to thrive. This is intended to support a diverse workforce that can better reflect and respond to members' and customers' needs.

The Council reports to a People and Culture Committee, made up of members of the Railpen Leadership team and chaired by Railpen's Chief Human Resources Officer (CHRO): this emphasises the level of Board and Executive Committee buy-in and support for its work.

In 2021, a priority for the I&D Council was "Working Families" in light of:

- The need to prioritise those initiatives which would help level the playing field to support greater career equality and attract and retain the best talent
- Employee feedback about the impact of the pandemic and working from home during lockdown, while also juggling caring responsibilities

This led to the introduction of a new policy called "Our People at Work and Home", launched on and effective from 1 September 2021. This policy recognised the fact that any individual might need to take time off work to look after family members and to deal with the unexpected issues that arise during the course of daily life, while also allowing people undergoing trauma to have the space and support they need to cope.

Specific changes under this policy included:

- 12 months full pay for maternity and adoption leave eligible from the first day of employment
- Six months full pay for paternity leave, eligible from the first day of employment
- Paid IVF leave, and failed cycle leave offered to all
- Paid leave to support caring responsibilities and emergencies that cannot be planned for in advance
- Bereavement leave that no longer requires a GP fit note

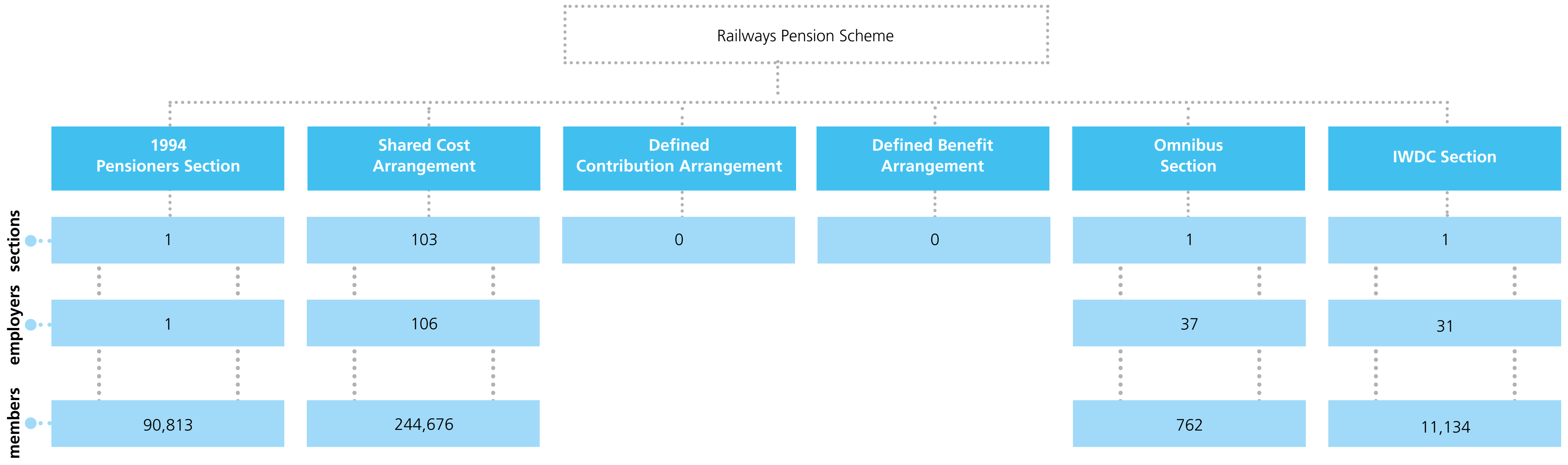
The I&D Council has further plans to build upon these changes with its 2022 Action Plan, where key themes include:

- 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

These are fundamental steps towards creating a more inclusive and diverse Railpen. This in turn will support long-lasting cultural change to help the entire Railpen team work more effectively.

STEWARDSHIP IN THE INTERESTS OF MEMBERS

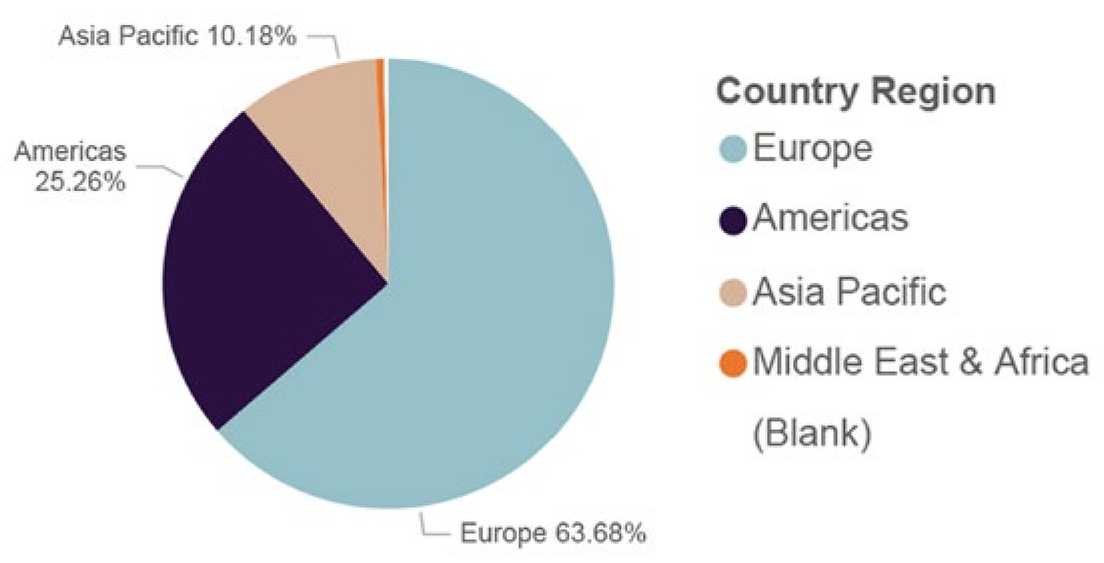
The RPS, which is the largest of the four schemes managed by the Trustee, comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution (DC) Arrangement, the Defined Benefit (DB) Arrangement, the Omnibus Section and the Industry-Wide Defined Contribution (IWDC) Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 106 sections across the six parts of the RPS, as illustrated below:



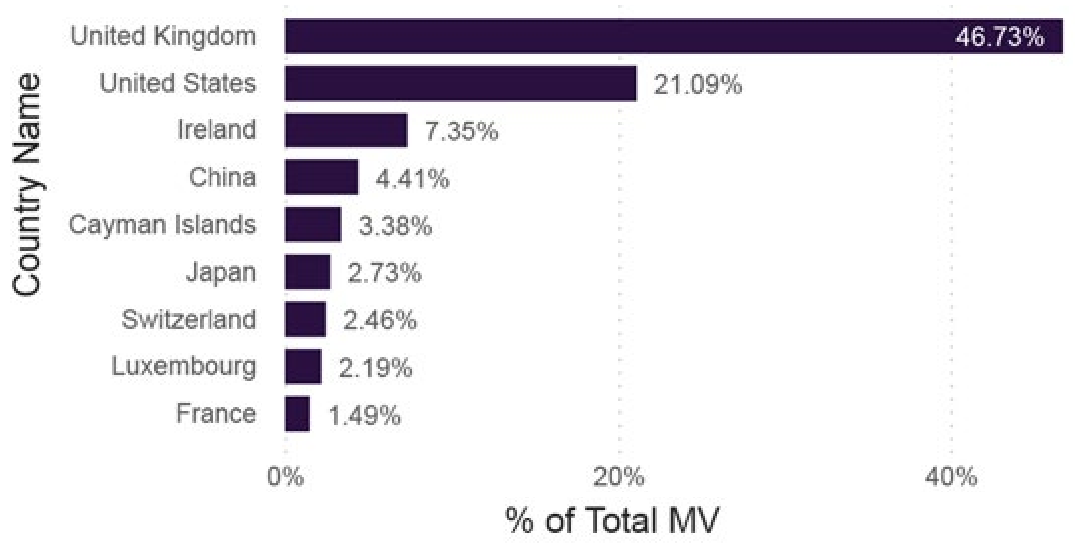
The £37 billion portfolio helps to pay the pensions of around 350,000 members. Given that many of the DB sections are open to new members and future accrual as well as having open DC sections, our investment time-horizon is extremely long. This means we have a significant allocation to growth assets 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.

Total Asset: £37.68bn **Total No of Countries: 51** **31 December 2021**

Asset by Region



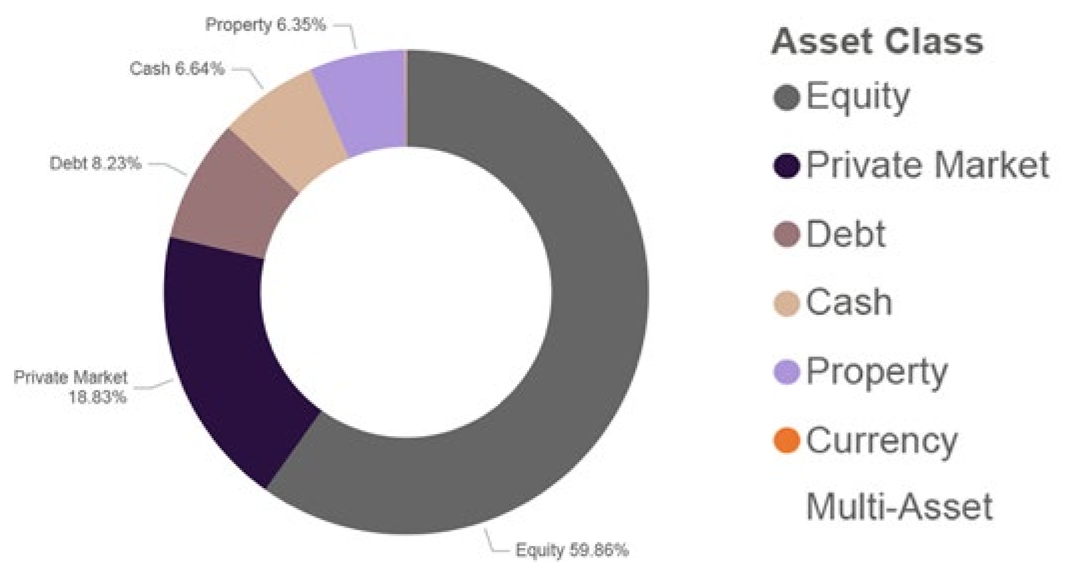
Asset by Country



AUM by Asset Class

Asset Class	Market Value	%GT Market Value
Equity	£22,552,824,203.59	59.86%
Private Market	£7,095,644,343.96	18.83%
Debt	£3,099,122,962.35	8.23%
Cash	£2,503,031,332.01	6.64%
Property	£2,391,554,091.06	6.35%
Currency	£22,592,624.73	0.06%
Multi-Asset	£12,509,025.82	0.03%
Total	**£37,677,278,583.52**	**100.00%**

AUM (£) by Asset Class



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 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 (0-109 years) as at 31 May 2021, across age, location and gender.

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 childrens' 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, though we continue to follow the debate with interest[2].

This is one of the reasons why in 2021, Railpen undertook a 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 on page 19.

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**	

[2] *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 (Pension Committees). These have been implemented by around a quarter of sponsoring employers – covering around 85% of the membership – to provide additional governance oversight and are another key forum for understanding the member perspective.
- The Asset Management Committee (AMC). This replaced the Railpen Investment Board 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 Director (NED) or Trustee Directors and the CEO.

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

The pandemic led to a shift towards more regular virtual interactions between the Sustainable Ownership team and the Trustee throughout the year. Sustainable Ownership is an agenda item at Trustee Board meetings at least once per quarter.

In 2021, the Sustainable Ownership team 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. Our January 2021 Trustee Deep-Dive session explored the latest developments in trustee duties on Sustainable Ownership, and elicited views from the Trustee on ESG and stewardship approaches. A dedicated Deep-Dive in May 2021 instead focused specifically on climate change and Railpen's roadmap to Net Zero by 2050 or sooner.

These dedicated, standalone sessions were complimented by the introduction of quarterly standalone reports on sustainable ownership activities to be brought to each Trustee meeting for noting. Specific interactions also took place around the new Investment Beliefs[3], and the Chair of Trustees and Head of Sustainable Ownership meet regularly throughout the year.

In 2021, we also deepened our interactions with our Pension Committees and set up a dedicated Sustainable Ownership Client Forum. This is explored in case study 4 on page 17.

[3] *Please see case study 2*

Case study 4: **Dialogue with Pensions Committees | The Sustainable Ownership Client Forum**

Pension Committees
Over 2021, Railpen's team discussed our sustainable ownership work at Pensions and Management Committees meetings. Sustainable Ownership team members attend where Pension Committees have shown specific interest in ESG issues. This is in addition to the regular written quarterly updates provided by Sustainable Ownership to all Pension Committees.

Issues discussed included:

- Our 2021 Voting Policy, and the effectiveness of voting sanctions
- Scenarios where Railpen votes against the recommendations of their proxy advisers
- How we review the effectiveness of our Sustainable Ownership work

Questions from members of our Pension Committees covered issues such as Railpen's approach to climate risk, including our transition plans and questions about reskilling of workers to ensure a just transition.

As always, these conversations provided useful additional input into our thinking. In particular, they provided additional validation of our decisions to:

- Commit to undertaking an annual internal AGM Review, which assesses how the team has performed against a series of success measures (and voted in members' best interests)
- Incorporate a criterion on 'approach to ensuring the Just Transition' into our 'CRIANZA' model of assessment of companies on climate change approaches[4]
- Press ahead with work to refine KPIs and success measures across each of the major Sustainable Ownership workstreams for 2022

The new Sustainable Ownership Client Forum (SOCF)
As highlighted in our 2020 Stewardship Report, in 2021 Railpen set up a Sustainable Ownership Client Forum (SOCF) to complement the interaction with Pension Committees and to expand and deepen the level of interaction. The SOCF meets twice a year and consists of up to ten pension committee members, as well as the Chair of the Trustee Board and another Trustee Director.

The agenda for each meeting is put together by the Sustainable Ownership team, based on interest from SOCF members. In 2021, items discussed included:

- An overview of how Sustainable Ownership at Railpen works in practice, including how it operates within the Trustee's Investment Beliefs
- Railpen's approach to Net Zero, on both the assets and the liabilities side
- How Railpen engages with portfolio companies and how its approach differs depending on the size of the holding and nature of the relationship
- Executive remuneration and the impact of our voting sanction
- How Railpen interacts with companies in the Quantitative Strategy (QS) portfolio
- How Railpen could further engage with PCs on Sustainable Ownership issues

The SOCF provided helpful challenge to our communication on these issues, while also giving us feedback on some of our planned activities, including:

- Deepening our work on incorporating climate risk into covenant rating. This has required close collaboration between Railpen's Sustainable Ownership and Employer Covenant teams. As a result, we have developed a proprietary methodology for incorporating climate risk into covenant analysis and have begun to develop a model for incorporating broader ESG factors. Railpen's Head of Covenant Analysis co-authored a recent paper for the Employer Covenant Practitioner Association (ECPA) on "Reflecting climate change impacts and risks in employer covenant assessments"[5]
- Further focusing our thematic stewardship work on those large, 'sticky'[6] holdings in our Quantitative Strategies portfolio – this includes leading on company engagements in the QS portfolio in our capacity as participants in coalitions on cybersecurity, diversity and executive remuneration

The first few sessions of the SOCF have naturally focused on explanations of Railpen's approach to Sustainable Ownership and 'filling in the gaps' which may exist about our work. As the SOCF embeds itself into the Sustainable Ownership governance arrangements, we expect the conversations to deepen over time and focus on the team's core initiatives and activities such as those covered in our forthcoming Stewardship Code and TCFD reports.

4 *Please also see case study 17 for an example of how this process has been applied in practice.*

5 *ECPA-paper-Reflecting-climate-change-impact and-risks-in-employer-covenant assessments-8 February-2022.pdf - Accessed 21st February 2022.*

6 *'Sticky' refers to our internal measure of how likely specific stocks are to remain in our quantitative portfolios over a longer period of time.*

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 we have published an annual, standalone, member-focused Sustainable Ownership Report since 2017.

In 2021, we decided to take further action to improve the accessibility of this report. We worked to produce a document that:

- was only 13 pages long
- explained from first principles how members' and employers' contributions are invested in companies and brands people care about
- extensively used graphics and case studies to help bring our work to life
- was designed in 'digital first' format, recognising that most members access our reports on their computer and mobile devices
- included a glossary of sustainable ownership terms

Railpen Sustainable Ownership Review 2020

We talk more about the role the publication of this report played in our broader 2021 member engagement activity on sustainable ownership issues in case study 5 on page 19.

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 Twitter feed and our 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 our member newsletters at regular intervals. While we get a regular stream of member queries on our sustainable ownership work throughout the year, there are 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, which we provide further details of in case study 5 on page 19.

Case study 5: **Railpen's Sustainable Ownership Member Engagement Project**

Issue
In our 2020 Stewardship Report, we said that we would "[explore] alternative options for understanding our members' concerns directly, and [think] about how to build a two-way conversation on sustainable investment issues" in 2021 and 2022. Although Railpen has a good understanding of members' concerns through regulator interactions with the Trustee Board, Pension Committees and the Sustainable Ownership Client Forum, we wanted to engage directly with our members on sustainable ownership issues.

Our approach
To this end in 2021, and early 2022, we worked on a Sustainable Ownership member engagement project. We undertook several activities to try to deepen our understanding of our members' views on:

- How well they understand the concept of sustainable ownership and what Railpen does in this space
- Our thematic stewardship priorities, and how we consider, engage and vote on these issues
- Our current suite of sustainable ownership disclosures
- How, and how often, they would like to be communicated with on our Sustainable Ownership work

There were a few discrete phases to our work:

- **Sustainable Ownership Member Review 2020** (published in October 2021). This condensed our Stewardship Report into 13 pages and was designed to be as accessible and engaging as possible, including the use of case studies and a glossary. We worked closely with the Member Communications team to reduce the use of jargon and aid comprehension as far as possible, using tone of voice standards that have been developed and tested with our members.
- **Member Survey** (November 2021). The Sustainable Ownership team and the Member Communications team designed a 10-minute survey for members, building on some of the messages used in our Sustainable Ownership Review. This was sent out to our Member Advisory Group, a diverse panel of members with whom we have regular dialogue to gather insight and develop new communications products. The survey was also made available on member websites. Our response rate of 25% of the Member Advisory Group, while capturing a distinct minority of the total membership, was one of the highest ever to a member survey.
- **Member roundtables** (January 2022). We wanted to dig deeper into the results of the member survey as well as try to take members on a journey to considering more granular issues such as the merits of engagement and divestment. We worked with language and communication specialists Quietroom, who acted as external facilitator, to hold four roundtables: two for those members considered to be 'engaged with sustainable ownership' and two for members who were 'not engaged with sustainable ownership' in order to get a representative sample of views.

Findings
The most interesting findings from the member survey and roundtables included:

Awareness of sustainable ownership

- 65% of members surveyed were familiar with the term "sustainable ownership".
- 59% were fully or somewhat aware that Railpen was a leader in investing savings sustainably.
- 75% of members felt more informed on sustainable ownership after completing the survey, with comments such as "I wasn't entirely aware that sustainability was a factor in investments, now my awareness has been heightened I will actively seek the information from the website."

Priority issues

- In order, the top five issues for members from the member survey were: how well a company treats its workforce; fair pay; taking action on climate change; protecting forests and promoting biodiversity; and making sure company boards can be held to account by investors.
- However, in the member roundtables, governance came out as the top member priority because, as a participant put it, "without a well-run company and accurate reporting, there's no way of holding boards to account on any other Sustainable Ownership issues".

Our approach to stewardship

- 77% of members surveyed thought it was "extremely" or "quite" important that "Railpen tries to influence the behaviour of individual companies to do better on environmental and social issues".
- Members at the roundtable also wanted us to engage with companies first and "change them from within" with comments including "I'm an advocate of trying to influence from within... rather than just pulling out of an investment".

Continues on next page

Continues from previous page

Case study 5: **Railpen's Sustainable Ownership Member Engagement Project**

Our Sustainable Ownership communications

- 67% of members in the survey had not seen any communications from us on our sustainable ownership activity.
- 76% of members had not seen any of our sustainable ownership reports. However, when they were asked to read our 2020 Sustainable Ownership report in detail, they liked it: "I feel it provides a great deal of information about how the pension trustees are supporting the process of influencing companies towards a more responsible approach to their business, both for the present and for the future."
- Members requested information through regular email updates and said they would prefer short-form content that is easily digestible, in plain English and spread throughout the year.

Next steps

In many ways, the feedback from members gave us comfort that our priority thematic engagement priorities such as workforce and climate change matter to them. Although we recognise that governance issues are not as "eye-grabbing" in a member survey, we were pleased that members recognised the importance of well-run companies in the roundtables.

We will continue to ensure our communications are easy to digest and disseminated as effectively as possible to members. We are therefore working on a year-round Sustainable Ownership campaign with Railpen's Member Communications team and we will communicate progress in next year's report.

HOW OUR STRUCTURES ENABLE EFFECTIVE STEWARDSHIP

The 2021 Railpen restructure

As well as the rebrand to Railpen, we also transitioned to a new organisational structure and a single Board and Executive Committee – effective from June 2021. This was undertaken to improve lines of accountability, better support collaboration between different areas of the business and remove elements of unnecessary duplication.

A key element of this restructure was the elevation of Railpen's Chief Risk & Compliance Officer to the Executive Committee, with a mandate to build out an expanded Risk function. Such a move was key to ensuring Railpen can enhance its identification and management of risk in an increasingly complex environment, helping us protect our business, clients and brand from both financial and non-financial loss or damage.

Given the complexity of our business and the changing UK pensions and investment landscape, we believe these changes make us a more effective organisation that is better able to manage risks and take advantage of the opportunities afforded by our scale and the expertise of our employees. In turn, this will support us to deliver on our five strategic outcome goals:

- Enhance member experience: enhance members' understanding and experiences to help deliver good member outcomes
- Reduce complexity for employers: reduce complexity for employers through a simple and attractive service model that meets their needs
- Develop rail pensions solutions: develop pension solutions that optimise outcomes for the rail industry
- Provide excellent fiduciary advice: provide excellent fiduciary advice and scheme designs that secure member benefits
- Achieve investment outcomes: generate the long-term investment outcomes to fund the schemes within agree risk tolerances

Working towards realising this vision will help us achieve the Trustee's mission to pay members' pensions securely, affordably and sustainably and securing members' futures, while in turn each priority area has clearly defined strategic goals for 2022 and beyond. We will report on the development and progress against relevant strategic goals in next year's Stewardship Report.

Structure before 1 June 2021

BUSINESS UNITS

- Benefits Business Unit
- Investments Business Unit

FUNCTIONS

- Finance, IT Infrastructure and Risk
- Strategic Development
- Human Resources
- Business Assurance, Internal Communications, Company Secretary and Trustee Governance

Structure after 1 June 2021

BUSINESS UNITS

- Benefits Business Unit
- Fiduciary Business Unit
- Investment Management Business Unit

FUNCTIONS

- Finance and Strategy
- Human Resources
- Operations
- Risk & Compliance
- Trustee Governance

Executive Committee (ExCom)
Strategic direction and decision-making

- **Business Unit Leadership Teams** – Implement the agreed strategy
- **Function Leadership Team** – Implement the agreed strategy
- **People and Culture Committee**
- **Enterprise Risk Management Committee**
- **Change Committee**

Our in-house investment management approach

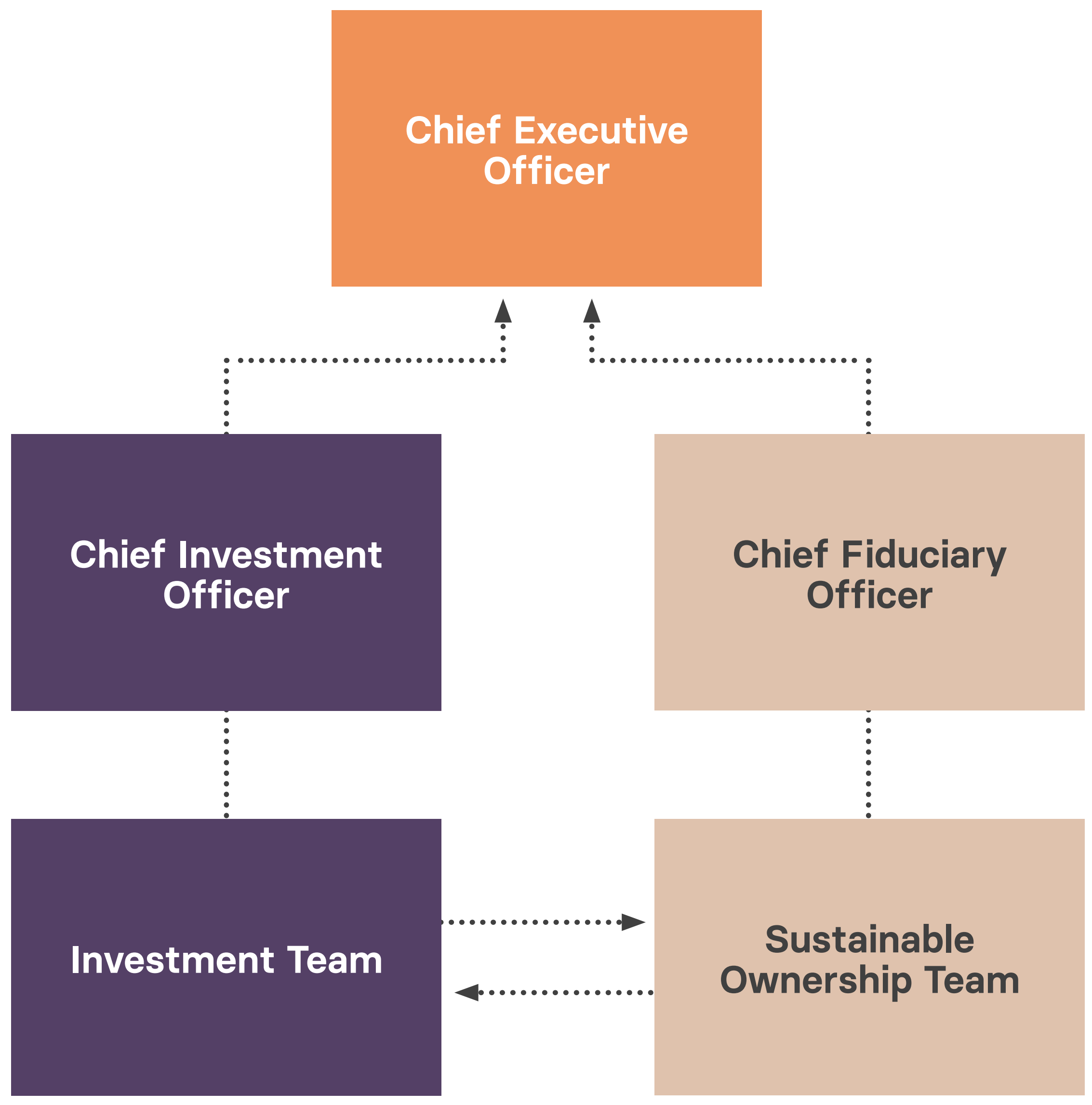
The Trustee remains relatively unusual amongst UK pension schemes in managing many of its assets through an in-house Investment Management team. This commenced with our Investment Transformation Programme in 2013, where we decided an in-house approach could provide more efficient and effective oversight 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

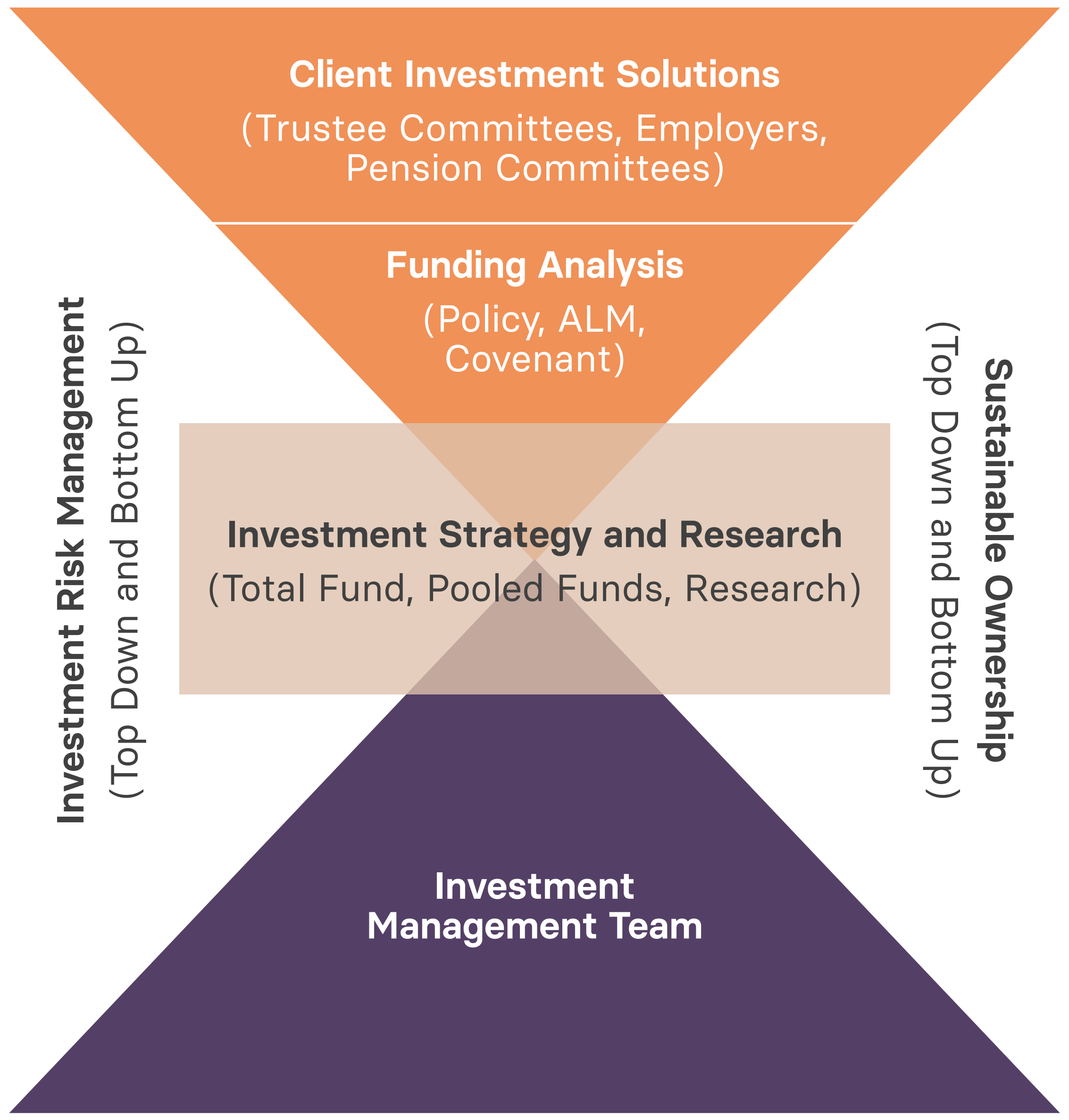
Acting as a long-term, responsible investor is fundamental to the Trustee's investment purpose, beliefs and objectives as well as its mission of paying members' pensions securely, affordably and sustainably. As a result, oversight of our Sustainable Ownership activities takes place from the top of our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



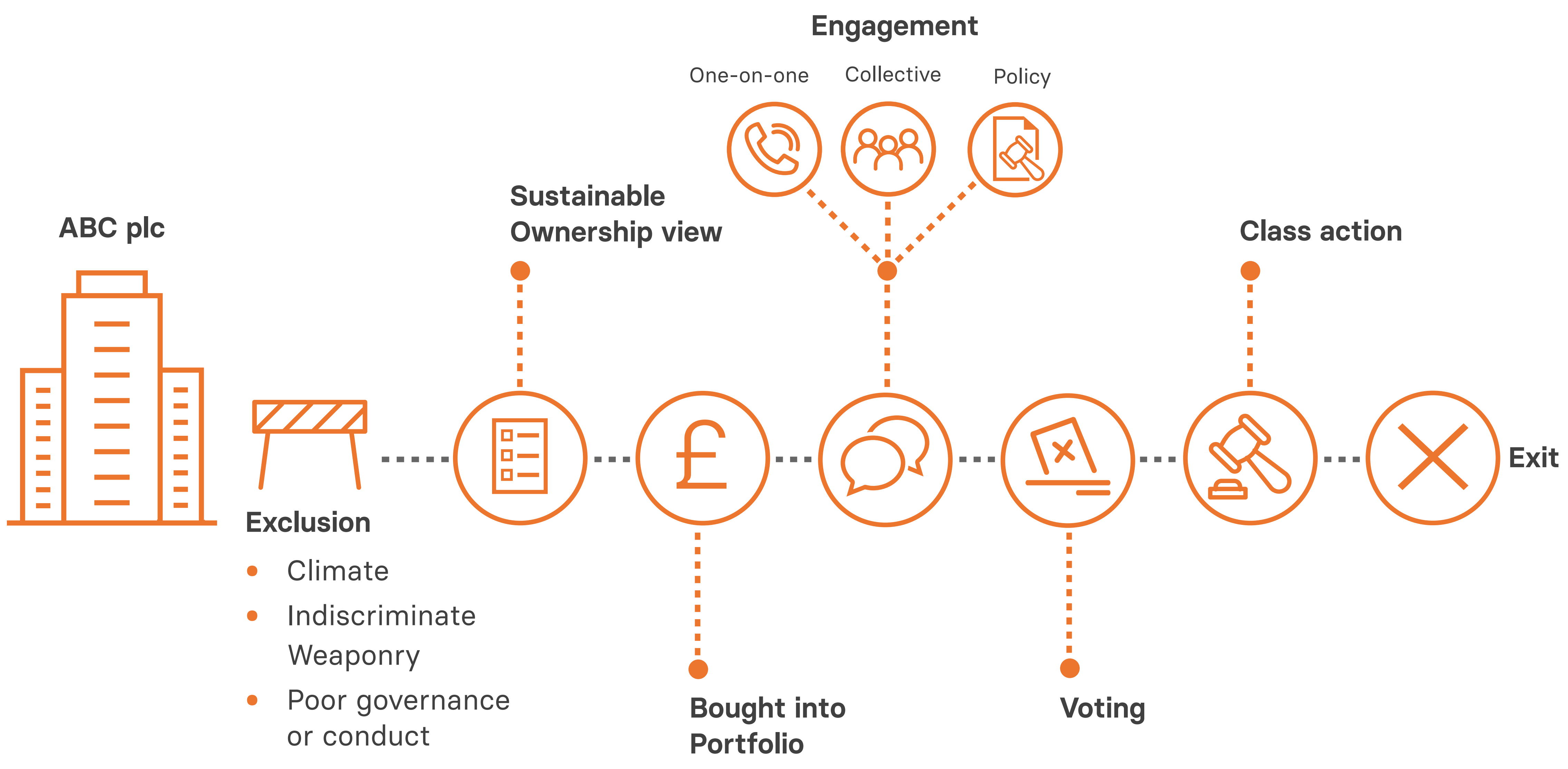
The Sustainable Ownership team is one of Railpen's investment "guardrails", with top-down responsibility for delivering the Trustee's commitment to sustainable investment, while also working closely with the Investment Management team and the Investment Risk team to ensure that sustainable investment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



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 life cycle 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.

Review activity (annual)	2021 updates
Global Voting Policy	• New lines on workforce engagement and voice, Net Zero voting and ethnic diversity • Flagging new priority engagement initiatives including dual-class share structures and workforce directors
Exclusions Polices • Climate • Indiscriminate Weaponry • Poor governance or conduct	• Refresh the 'Governance zero-weight' exclusions methodology and process. Please see case study 12 • Begin the process of automating indiscriminate weaponry and climate exclusions using ESG data vendors
Global Engagement Policy	• Merged global engagement policy into existing documentation elsewhere to streamline and clarify our policies and disclosures
Engagement targets and objectives	• Review and renew focus on four thematic stewardship priorities: Responsible Technology; Sustainable Financial Markets; Worth of the Workforce; the Climate Transition • Improved stewardship data collection by purchasing engagement module which will support us in mapping progress against our objectives. Please see case study 15
Due diligence processes (external managers)	• Shift to new external manager assessment framework after review of previous framework discovered opportunities for further development and points of differentiation between managers • New process agreed and implemented for Long-Term Income Fund portfolio. Please see case study 9

How we approach conflicts of interest

Railpen expects all directors, employees and secondees that 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:

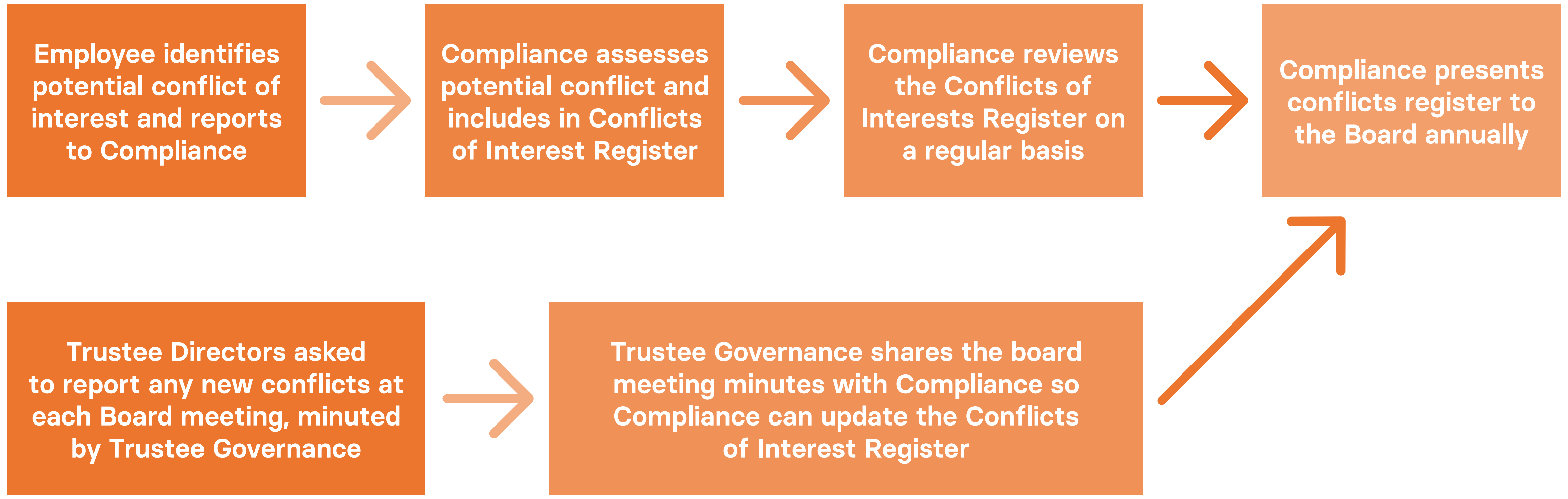
- Personal interest in suppliers of services to the company
- Any interest in a business which may be a client of the Trustee Company
- Personal Account Dealing in a security where there may be inside information, sanctions in place for specific jurisdictions or other confidential information held by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

In 2021, to further strengthen the culture of Compliance across the organisation, Railpen introduced a new automated compliance solution to assist with Personal Account Dealing requests and approval of entertainment and gifts as per the monetary limits set out on our policies, as well as the annual declaration attestations. This has improved the efficiency and proactive record-keeping of the compliance requirements. Railpen Compliance can run specific reports to generate Management Information (MI) that allow for better oversight of potential conflicts and conflict management by the Board.



Managing potential stewardship conflicts

Railpen recognises the serious risk that poorly managed conflicts can pose to our members and our external managers' ability 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.

Conflict	Example	How Railpen manages it
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.	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.	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.
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.	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.	
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.	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.	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.

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: **Managing potential stewardship conflicts of interest**

Voting against an RPS employer: If we vote against management at an AGM of a company that is a sponsoring employer within the Railways Pension Scheme, we will notify our Chief Fiduciary Officer and the Head of the Client Investment Services team. We sent 13 notifications of this type concerning votes in 2021.

Voting against a tenant in our Property portfolio: We follow a similar process when we vote against management at the AGM of a company that is a tenant in our internally managed Property portfolio. In this case, we notify the Head of Property. We sent 16 notifications of this type concerning votes in 2021.

Stewardship conflicts on the Sustainable Ownership team: A member of our Sustainable Ownership team is also a trustee of an authorised master trust where a FTSE 100 insurance firm is the Scheme Funder. Railpen exercises its voting rights directly on UK stocks in its pooled passive index fund, and so a potential stewardship conflict arises.

To manage this, the team member's conflict has been declared, the company has been placed on a watchlist and the individual does not take any direct or collective engagement activity with the company, or from any discussions or decisions on relevant voting decisions.

In 2022, Sustainable Ownership will be working with Compliance to fully incorporate our stewardship conflicts of interest policy into the new Compliance platform and the Railpen-wide Conflicts of Interest Policy.

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 2021, we recruited two individuals to the team: one with an active equity investment background and experience of bottom-up company analysis, and an internal hire with an extensive background in fixed income investing. Incorporating these skills and experiences into our Sustainable Ownership team will be vital as we deepen our work on bottom-up ESG analysis and progress on our journey towards Net Zero, ensuring we are well-positioned to act as effective and impactful stewards of members' savings.

2021 was also the first year of implementing our new approach, as highlighted in the 2020 Stewardship Report, to assign specific sector allocations for pre- and post-investment engagement and analysis to mirror the sector allocations of the fundamental equities team. This was intended to further develop key relationships across the Sustainable Ownership and Investment Management teams and support effective two-way dialogue and decision-making.

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.

Examples of training activities undertaken by the Sustainable Ownership and Investment Management teams in 2021 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
- 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
- A commitment from the senior team members to lead by example with weekly attendance at webinars and training sessions
- The development of personal training plans, progress against which is discussed at regular intervals. For 2021, this has been developed into a "Career Planning, Learning & Development" framework, tailored to each individual's career objectives and motivations.

The Sustainable Ownership team holds regular workshops with our Investment Management and Fiduciary team colleagues. One example is the Climate Working Group – co-chaired by the Chief Investment Officer and Head of Sustainable Ownership, consisting of five individuals from the Investment Management team and five individuals from the Fiduciary team – which has been a key forum in 2021 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 is working with Internal Communications to consider how we can share news about our work more effectively across the organisation, for instance, through a series of structured 'Lunch and Learns' to supplement our current contributions to Railpen-wide Town Hall meetings.

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, 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 Sustainable Ownership team is eligible for participation in a personal bonus programme, for which they are assessed against a number of objectives, including individual delivery of ESG initiatives. Each individual's performance is assessed annually against delivery of his or her specific accountabilities, behaviours and delivery of priority projects, which in turn is aligned to delivering value for members in alignment with the Trustee's investment objectives.

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

The new 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 2021, it was agreed that, from 2022 onwards, individuals in the Railpen Property team would have consideration of sustainable ownership explicitly incorporated into their accountabilities and behaviours in their "Job on a Page" which outlines specific accountabilities, objectives and priorities and against which an individual's performance is measured.

Railpen's structured development programme also includes regular conversations around what 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.

How effectively the Railpen structure supports stewardship

2021 saw some significant changes to the structure and governance of the Railpen business. 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.

Although the full impact will only become clear in the longer-term, the restructure, rebrand and associated changes supported us so far in 2021 to:

- Work with the Trustee to create a new set of Investment Beliefs that better reflect our investment philosophy and, in particular, our approach to sustainable ownership
- Identify and document Sustainable Ownership relevant enterprise risks (around people, regulatory compliance and supplier management) on a risk register, together with clearly defined mitigation measures
- Streamline and document our Sustainable Ownership policies as part of a new ESG Risk Directive and database

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.

We have also seen some distinct benefits from implementing the sector-specific allocation approach for members of the Sustainable Ownership team in 2021. This includes greater alignment and co-ordination between the Sustainable Ownership and Investment Management teams on company engagements, more rapid dissemination of relevant information between teams and more efficient decision-making owing to clearer roles and responsibilities.

SYSTEMATIC ESG INTEGRATION

As stated within our Trustee Investment Beliefs, the Trustee believes that "environmental, social and governance ('ESG') factors affect cash flows, asset values and asset-liability risk, positively or negatively. 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 affect business fundamentals and impact the market. The magnitude, nature, timing, and likelihood of the ESG risk associated with an asset or portfolio of assets can be approximated by assessing inherent risk and the quality of mitigants in place now or in the future.

Working together with the Investment Management team, the Sustainable Ownership'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.

Case study 7: **Listed equity | Medtech company – Fundamental Growth Portfolio**

The team began their research at the sector level and determined which ESG factors were most material for that sector or sub-sector. We use a materiality map maintained by the Sustainability Accounting Standards Board (SASB) as a guiding framework for our research and adapted where needed for unique business models or more specific markets.

For the US medtech industry, we determined that various factors prevalent such as a highly qualified workforce, the safety of medical products and the regulatory frameworks around reimbursement and insurance coverage. Assessing the company's exposure to these industry risks supported our understanding of its competitive advantage.

The team pulled in data from several specialist research providers, in addition to sell side brokers, and reweighted indicators according to their financial materiality where needed. Areas identified for further research included:

- The recyclability of the product: the multi-layered materials used in the company product are not easily recycled. To manage this, the company has hired an environmental sustainability officer, partnered with a specialist recycling company and initiated a return programme for used products. Low-cost mitigations such as these should underpin the company's brand in its target teenage and young adult markets.
- Upcoming regional regulation to prohibit targeted advertising to under-18s. We looked at the regulation in detail and although it could possibly affect one of the company's products (teeth-whitening kits) in a specific region, it was not a main product line and sales were typically via approved professionals, not directly to customers. Additionally the region is not a large or target growth market for the company.

The company's corporate governance met most best practice standards, including a single class share structure, equal voting rights, the separation of CEO and Chairman, a diverse and independent Board including independent committees. Potential areas of concern were mitigated by recent evidence of the company's responsiveness to shareholder concerns, including those over pay and improving shareholder communications.

The company presented a compelling, fundamental growth opportunity with well-managed sustainability risks. Ongoing corporate governance and performance on environmental and social issues will be monitored by the team during the hold period.

The Railpen team undertakes extensive due diligence on potential holdings in our Fundamental Growth Portfolio and the views of the Sustainable Ownership team on the ESG risk profile (and capacity for genuine improvement) are fully incorporated into the investment decision, as outlined in case study 8 to the right.

Case study 8: **Decision not to invest | Clothing retailer**

Railpen looks to invest in companies that will perform well over the long-term, in line with our long-term time horizons. We therefore primarily seek to invest in companies that effectively manage the most material ESG risks and opportunities they face. However, we acknowledge that no company is perfect and – as long as there is a clear commitment to undertaking the necessary work, and avenues for Railpen to influence corporate behaviour – we may see investments in such firms as an opportunity to add and obtain value on members' behalf.

In 2021, a discussion arose about whether to invest in a clothing retailer as part of our Fundamental Equities portfolio. The company had recently been the subject of negative media stories around its culture, approach to health and safety and governance. In response, senior management had committed publicly to overhaul the company culture, as well as to undertake further improvements to governance arrangements.

An investment at this stage potentially provided an opportunity to support a company to make positive progress on ESG issues. Therefore, the Sustainable Ownership team worked together with the Investment Management team to undertake an extensive review of the credibility of the company's commitment to improvement. This included conversations with senior management of the company and their investor relations team. Issues covered included the approach to remuneration, the quality of the external audit team and firm and the desired skills for future NED recruitment.

Although the team welcomed the clear commitment to cultural change from senior management, the activities being undertaken to improve the governance arrangements fell short of what we were looking for. The due diligence note from the Sustainable Ownership team was bearish on the current and likely future ESG risk profile of the company and Railpen did not pursue an investment in the company.

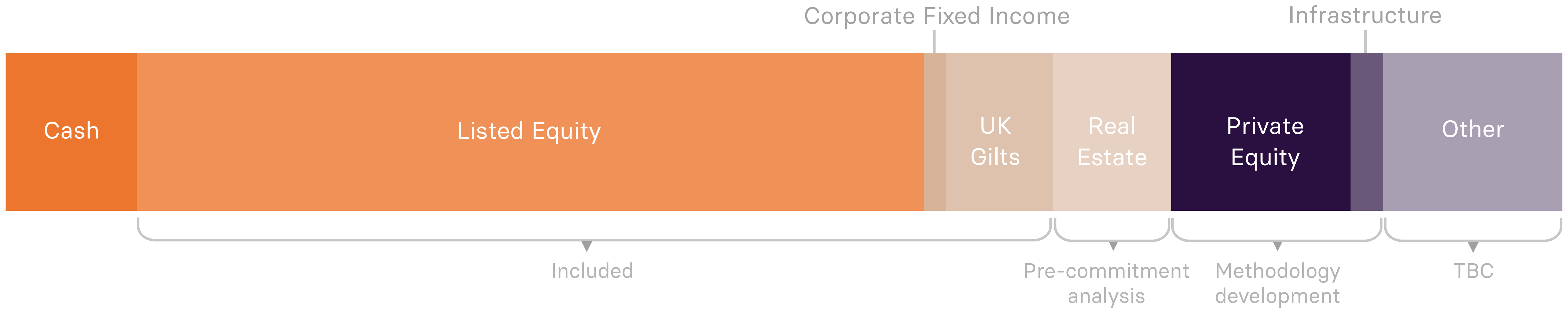
Railpen's Net Zero Plan

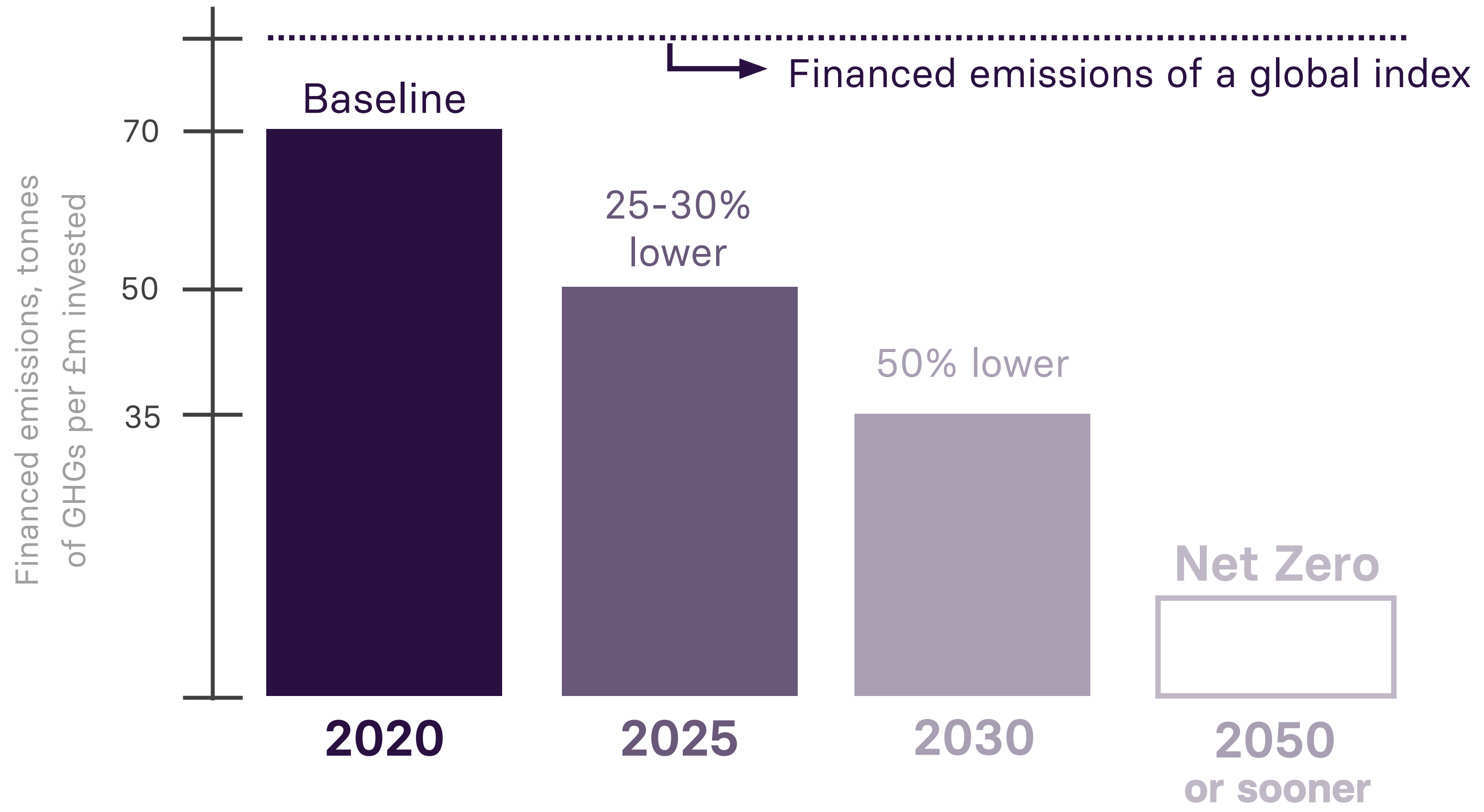
In 2021, Railpen published a detailed roadmap as part of announcing its commitment to be net zero by 2050 or sooner. The Net Zero Plan, which focuses on real-world decarbonisation and draws on the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF), covered both the investment portfolio and the emissions associated with our corporate footprint.

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

Our Net Zero Plan was based on four pillars as defined in the NZIF: governance and strategy, targets and objectives, asset class alignment, and policy advocacy and market engagement.

There was a positive industry reception to our Plan, with requests for teach-ins and other discussions from asset owners and managers in the UK and beyond. We will report on progress against our alignment and engagement targets next year, as well as future reports prepared to comply with the Trustee's obligation to report using the Taskforce on Climate-related Financial Disclosure (TCFD).





Focus on real world decarbonisation

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"*

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 constrains the extent to which in-depth and accurate ESG analysis can take place in some asset classes. The structure of the investment arrangements i.e. whether passive or actively managed, in a pooled fund, or through a direct investment or segregated mandate, also shapes how and the extent to which we can undertake ESG integration.

In 2021, an important development was our proprietary climate risk assessment model, which we applied to the largest emitters across our portfolio (covering at least 70% of the financed emissions) and which will support the decarbonising commitment we made in 2021 and our net zero greenhouse gas (GHG) emissions target by 2050 or sooner.

This year, we also focused on deepening our approach to ESG integration across asset classes beyond listed equity. Priority classes included infrastructure (through our LTIF and Property portfolios) and private markets, in light of the potentially enhanced opportunity for on-the-ground influence and positive impact but also the often visible and high-profile nature of UK infrastructure projects in particular.

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 controversial 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

Assets class	Integration
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 • 2021 and 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

Case study 9: **Real assets investments | Refining and implementing our new ESG and reputational risk assessment frameworks**

Our Long-Term Income Fund (LTIF) targets defensive real assets, including core infrastructure, renewable energy and long-lease commercial real estate in the UK. The LTIF has recently invested in a build to rent development at Trocoll House, Barking, a portfolio of four operational energy from waste plants, and the new financing structure of a water utilities company.

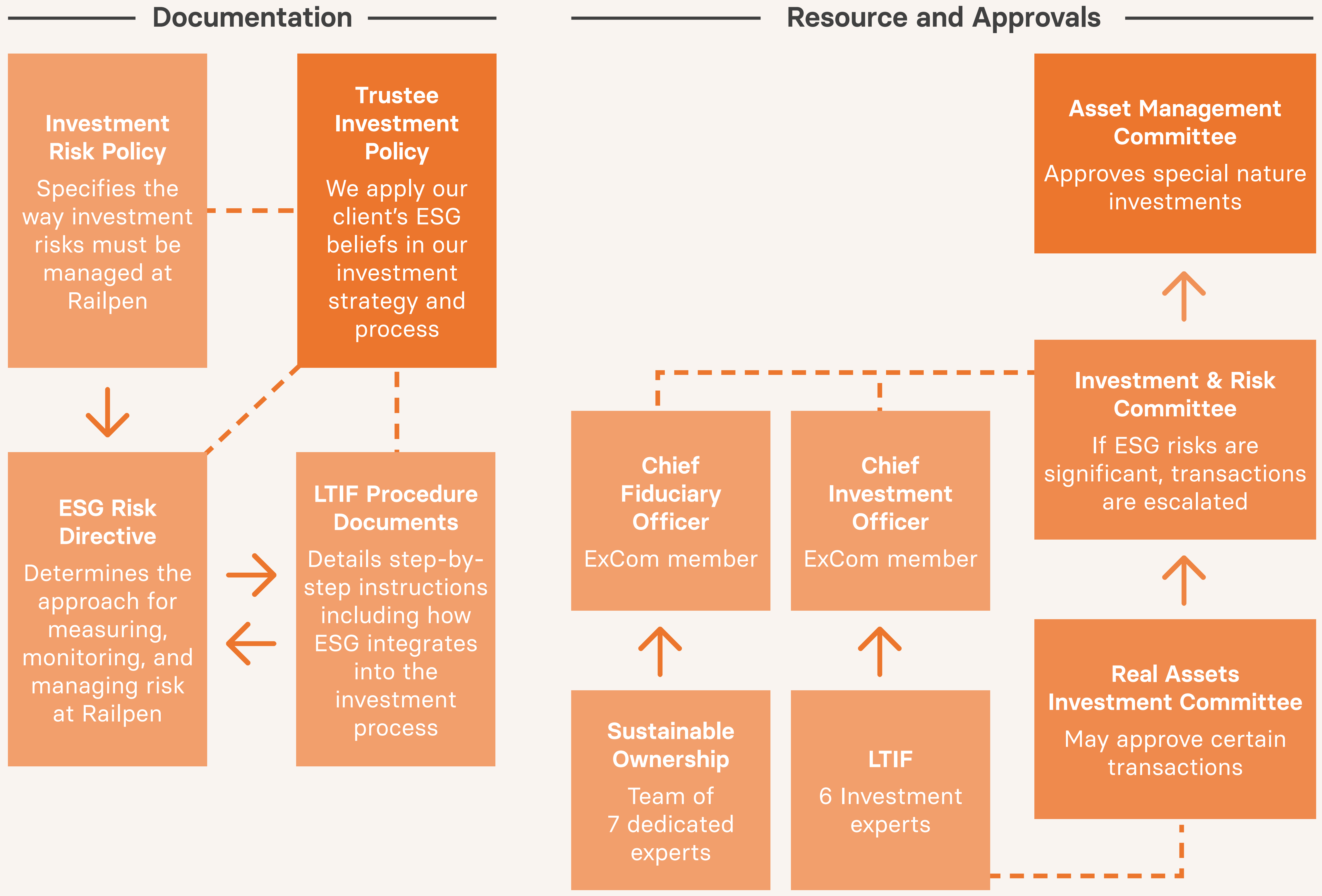
We believe that there is an inherent affinity between investing in real assets and investing sustainably. This is because real assets:

- Often provide essential societal services, which confers a societal licence to operate, which must be respected
- Are almost always 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
- 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 this asset

In 2021, we continued our 2020 work to strengthen and formalise our approach to conducting in-depth assessments of ESG and reputational risks[7] As detailed below, we have tailored our approach to the real asset investment process in collaboration with the LTIF team.

Improve process efficiency and good governance

ESG risk is governed at Railpen through our Investment Risk Governance framework. Our ESG Risk Directive is partnered by specific LTIF procedures and the investment professionals in the LTIF team work closely with our Sustainable Ownership team on each transaction and for ongoing portfolio monitoring.



Governance

Continues on next page

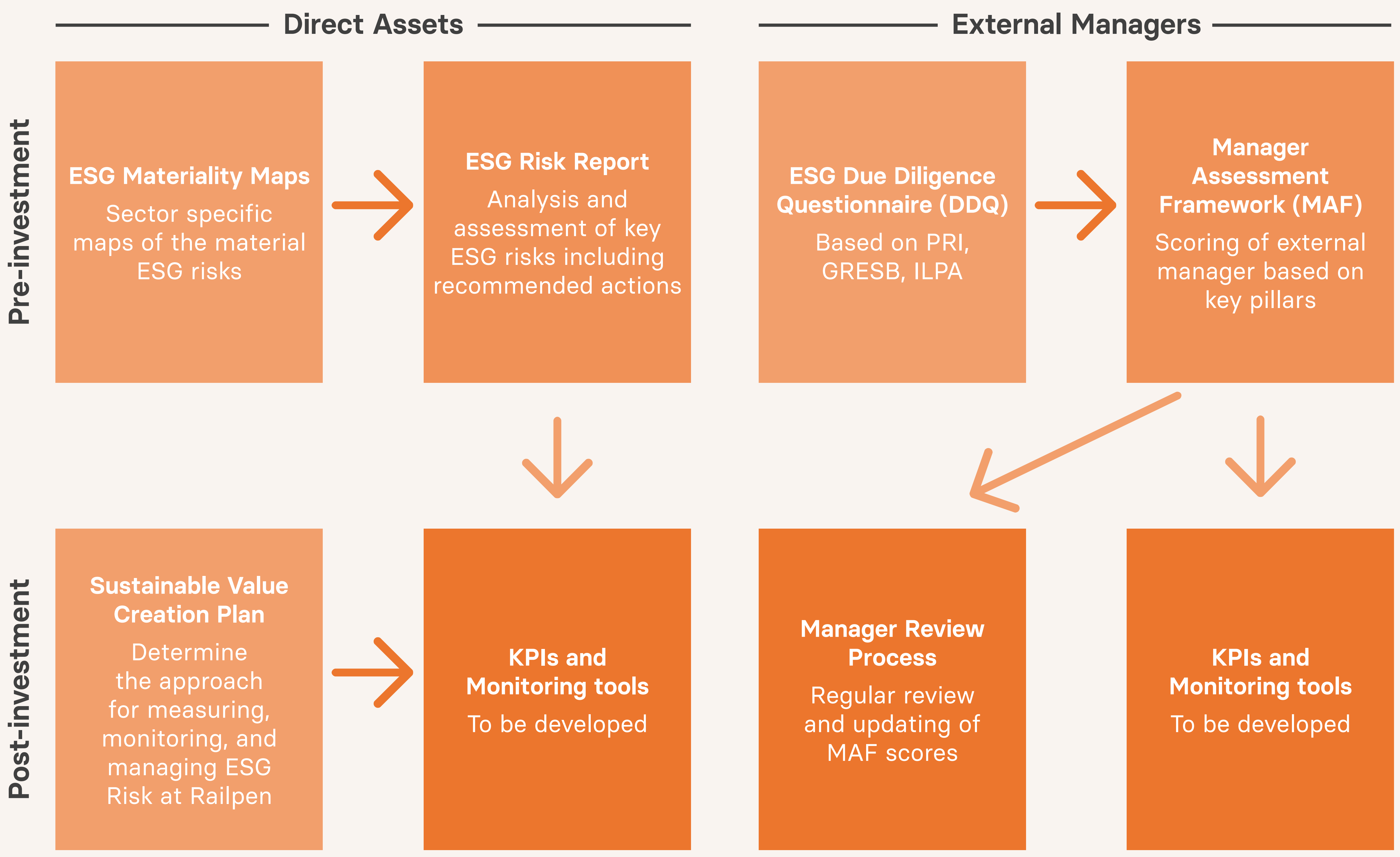
[7] *You can find a description of the early stages of this project in our 2020 Stewardship Report (p.27).*

Continues from previous page

Case study 9: **Real assets investments | Refining and implementing our new ESG and reputational risk assessment frameworks**

Our approach to considering ESG risk both pre- and post-investment differs depending on whether we invest directly or through an external manager.

For direct investments, we begin the ESG risk assessment process by producing a 'Materiality Map' which lays out the sector-level ESG factors for a proposed investment against our assessment of the relative importance to stakeholders. Materiality Maps are used to help identify the ESG issues that should be analysed as part of ESG due diligence. They can also help identify issues for inclusion in a Sustainable Value Creation Plan or regular ESG monitoring.



ESG Toolkit

Co-ordinate reporting and improve transparency on the ESG performance of assets

Within LTIF, Railpen aims to invest in economically, socially and physically relevant assets that support climate action, promote energy efficiency, provide essential city infrastructure, promote innovation and support better well-being for the communities where possible.

This makes LTIF a particularly suitable portfolio for consideration against the UN's Sustainable Development Goals (SDGs). Alongside ESG risk metrics that we monitor for directly-held assets, the SDGs help us identify the overall impact of our portfolio and our natural alignment to sustainable investment. We have begun to assess the alignment of LTIF's directly-held assets against the SDGs, and a case study can be found on the next page.

We intend to design a reporting dashboard to formalise the collection and monitoring of these metrics by 31 December 2022.

Continues on next page

Continues from previous page

Case study 9: **Real assets investments | Refining and implementing our new ESG and reputational risk assessment frameworks**

Carraig Gheal and Tralorg Wind Farms


Carraig Gheal Wind Farm


Tralorg Wind Farm

- Located in Scotland
- Provide significant contribution to UK's decarbonisation agenda and clean energy supply
- Supporting local communities
- Sites produce 190 gigawatt hours of electricity per year
- Avoided 2,090,000 kg of CO2 Emmisions

Contributing over £3m to local community projects over their life including:

- Local restoration for healthy pasture in the Avich & Kilchrenan community
- Refurbishment of Dalavich village hall in Argyll
- Funding the Quay Zone community leisure centre in Girvan

Systemise assessment of reputational risk

Due to the illiquid and high-profile nature and significant ownership rights inherent in much of the LTIF portfolio – particularly direct assets – reputational risks are considered at the beginning of the investment process. The reputational risk score assigned to a deal determines the level of due diligence and escalation required concerning topics such as: impacts on communities, local pollution, and controversial products.

Similarly to our corporate fixed income portfolio, if the reputational risk posed by a LTIF deal is deemed to be high and unmanageable then it will be unable to proceed. This process ensures that the LTIF does not make investments in companies that are deemed to contravene internationally-agreed norms and standards or that otherwise attract negative attention.

During the year, the LTIF and Sustainable Ownership teams have identified areas in which the ESG and reputational risk assessments can be refined. We are currently incorporating these learnings into our processes. For example, we are integrating external data on reputational risk into the assessment to limit subjectivity and improve efficiency.

Next steps

The LTIF portfolio's future deployment will be focused on increasing our exposure in several sectors as well as introducing new sectors which are both suitable for the current LTIF strategy and are supportive of our ESG beliefs and the UN SDGs.

Our LTIF and Sustainable Ownership teams will continue working together in 2022 to develop an approach for assessing and monitoring external managers' approaches to Sustainable Ownership issues in a way which is consistent with our Sustainable Ownership manager assessment framework for other asset classes. Specific actions will include drafting template legal documents, designing a reporting dashboard, and finalising our framework for assessing reputational risk.

Case study 10: **Pre-investment ESG analysis: Trocoll House**

In early 2021, Railpen entered into a £92m funding deal with real estate specialists Revenue + Capital and developer Fifth Capital to develop 198 build-to-rent apartments at Trocoll House in Barking. Railpen acquired the land from Revenue + Capital with a 50-year lease to be granted to the London Borough of Barking and Dagenham upon practical completion in 2025.

Prior to investment, the Sustainable Ownership and LTIF teams implemented our new ESG risk assessment framework to identify material issues to analyse as part of ESG due diligence.

When designing the Development and In-Use Phase Materiality Maps, we considered the following ESG risks: community relations, energy intensity of construction, energy efficient design, water use, waste, physical climate impacts, health and safety, material procurement, modern slavery, noise pollution, affordable housing, alongside residential and commercial tenant relations.

We conducted due diligence on the most material risks identified, including affordable housing, community relations, energy efficient design, health and safety, and modern slavery during construction. Key points from the due diligence are summarised below:

- The delivery of 198 build-to-rent apartments, 35% of which are affordable, exceeding Barking and Dagenham's policy of 25%, will help tackle the local housing shortfall.
- Trocoll House will provide good quality private rental accommodation and affordable housing for local people and young professionals looking to move to the area.
- The purchase is subject to green lease clauses, obligating the tenant to maintain sustainable responsibilities throughout the operation and occupation of the development.

Trocoll House

- Built-to-rent investment subject to a lease with the London Borough of Barking and Dagenham
- Held since 2021, operational from 2024
- 49/198 affordable housing residential units
- Part of the local regeneration scheme of Barking and Dagenham
- Aim to support local economic growth and better quality of life for local people
- Good quality private rental accommodation which will attract young professionals to the area
- The profit rent and Council tax receipts secured from entering into the lease will support the Council's target for revenue increase and provide a balanced Council budget that will help deliver policy priorities

After undertaking this analysis, it was concluded that ESG risks during the In-Use Phase were in our view either low, or are largely mitigated by leaseback to the London Borough of Barking and Dagenham. For the Development Phase, we recommended monitoring metrics on Riddor reportable incidents and near misses, modern slavery reportable incidents, and community complaints. We intend to design a reporting dashboard to formalise the collection and monitoring of ESG metrics for LTIF in 2022.

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 for our sovereign debt portfolio and also to provide additional key information which supports us in assessing holdings in specific jurisdictions. Case study 11 provides further information on our 2021 work to develop a country-level gross risk screen.

Case study 11: **Sovereign debt | Country-level gross risk screen**

In order to meet our regulatory requirements in respect of ESG risk, we developed a country-level gross risk screen to systematically assess ESG risk at the country level. The purpose of the screen is not to exclude countries but to highlight gross ESG risk[8] and prompt further qualitative risk analysis and assessment of risk mitigation options. The screen was developed by the Sustainable Ownership team in collaboration with the Investment team and Investment Risk Management team and will be applied across relevant asset classes.

Following a review of available research and industry best practices, ten indicators were selected across environmental, social and governance pillars. The indicators are sourced from respected third-party sources, such as the World Bank and other academic and non-profit organisations, and weighted in terms of materiality to Railpen's reputation. The methodology assigns a slightly higher weight to governance and an equal weight to social and environmental governance indicators due to perceived reputational impact.

In terms of challenges, the available data tends to be backwards-looking and only updated at most annually. In response, we continue to review available sovereign research to improve our data inputs and will update the screen in response to ongoing improvements in source data. Additionally, the use of environmental data such as vulnerability to climate change was generally avoided. The point of this was to prevent the undue restriction of institutional capital to regions that may already be subject to the worst physical effects of climate change and the resulting higher costs of capital.

In terms of a second phase for the sovereign screen, the team will (i) monitor the direction of country-level signals to capture improving or deteriorating qualities, (ii) amend data inputs in line with best available research sources and (iii) integrate the country-level ESG risk ratings into our wider data platforms for access by Railpen teams and use in our investment processes.

[8] *That is, the risk before considering mitigants*

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 will be implemented from 2022 onwards.
- 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: **Refreshing our Governance and Conduct Zero-Weight process 2021**

Railpen set up our "Governance and Conduct Zero-Weight" (Gov Z-W) exclusions process in 2017 and have run it most years since inception. The exclusion aims to identify those companies whose governance and behaviour are of particular concern from the following perspectives:

- 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.
- 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.

Once a company is identified, we look to engage, to either gather more information or to change behaviour. If we believe that either the financial or the reputational risk proves unmanageable and unlikely to improve, we will divest.

In 2021, we decided to review and refresh our approach to Gov Z-W exclusions for the following reasons:

- To better identify those companies which are likely to pose a financial risk through egregious governance practices (creating more of a forward-looking, as opposed to primarily a backwards-looking screen)
- To align our screening priorities and methodology with our core engagement themes
- To ensure resource across the team is used as effectively as possible

After discussion across the Railpen team, including with the Investment Management and Fiduciary teams, it was agreed at a meeting of the Investment & Risk Committee that the following changes would be made:

- Changing the data points used for the screen to better encapsulate what we consider to be major governance red flags. This includes auditor tenure, the presence of a dual-class share structure, composition and expertise of the Audit Committee and the presence of a qualified audit opinion
- Adding more data points that align with our thematic priorities. This includes more granular data points on workforce management and modern slavery
- Optimising the universe of companies considered as part of the Gov Z-W process
- Taking further steps to streamline the process and unlock other efficiencies

These changes will be implemented in early 2022 and we will report on our progress in next year's Stewardship Code report.

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.

In 2021, we onboarded a new external manager for a regional equities mandate. Case study 13 demonstrates how we incorporated our expectations on ESG integration, reputational factors, stewardship and climate change into the IMA. We also, in line with our commitment to the proactive and thoughtful use of voting rights, agreed that we would maintain control over our voting rights across the mandate.

Case study 13: **Regional Equities Mandate | Negotiating the Investment Management Agreement**

Issue

In 2021, Railpen selected an external manager for a regional equities mandate. Equities in this region typically have lower ESG disclosure and can face higher ESG risks. In the 2020 Stewardship Report how we worked to ensure ESG and stewardship was a key focus of the due diligence process. Once a manager was selected, we wanted to ensure that the legal documentation fully supported us to hold the manager to account on ESG, stewardship and climate issues in the context of our overall approach to sustainable ownership.

Approach

The Railpen Sustainable Ownership and Public Markets teams worked closely together to assess the mandate in the context of our proactive approach to stewardship, our Net Zero Plan and both current and forthcoming disclosure requirements on sustainable investment.

We decided that it was vital the Investment Management Agreement (IMA) itself ensured:

- We can effectively exercise key stewardship tools with portfolio companies
- We receive timely information that supports our own reporting obligations
- That potential reputational risks are minimised as far as possible

We also considered the use of side letters to the IMA and we will make use of them in the future to allow the contract to evolve in keeping with market developments. However, we thought it important that we clarify our expectations in what is ultimately the most important item of legal documentation governing the asset owner-manager relationship.

To this end, we undertook a series of discussions, supported by our external legal advisers, with the manager and its legal team.

Outcome

We were pleased that the ultimate IMA achieved an appropriate balance between what is reasonable for the manager to provide and our sustainable investment preferences and requirements. This included:

- Railpen maintaining full voting rights, with the manager committing to report any material engagement outcomes in time for forthcoming votes
- Prompt reporting on any ESG or ethical incidents affecting portfolio companies
- Quarterly reporting on material ESG issues, reputational data and engagement (including public policy) activity with issuers
- A commitment to aligning the portfolio to Railpen's Net Zero goals within 90 days of the commencement of the IMA
- At least annual reporting on any stewardship conflicts of interest
- Alignment with our exclusions policy and exclusions lists

Furthermore, the tone and outcome of discussions with the manager on these issues further confirmed our comfort with the approach and attitude of its portfolio managers and stewardship practitioners.

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 assessing how the relevant manager makes investment decisions based on the medium to long-term financial performance and ESG risks of investee companies and engages with investee companies to improve their performance.

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 2021, we refreshed our approach to reviewing managers, and created our Manager Assessment Framework. The new framework was created to better align our scoring process with that of the Manager Monitoring team, and clearly highlight areas of differentiation and misalignment between a manager's sustainable ownership approach and Railpen's own. The new framework assesses managers with regards to the:

- Depth of their integration of ESG into investment beliefs, governance and culture
- Quality of ESG resources, data sources, tools and access
- Approach to active ownership, including clear decision-making processes and targets for engagement
- Net Zero alignment, including their approach to climate stewardship

Within the Framework, Railpen sends each manager a questionnaire and this is 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.

This framework was rolled out in 2021 across all our growth managers, and we intend to tailor it for application to our private markets managers in 2022. Although many of our managers have scored well across much of our assessment framework, we have noted some gaps in the climate stewardship and engagement processes and objective-setting of some managers. In these cases, we have sent follow-up requests for information and will arrange further meetings to discuss.

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 inbuilt 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.

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 engages directly with companies identified as being at risk of exclusion to request 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

Additional input to our analysis of source documentation comes from the Sustainable Ownership team's dialogue with companies and other stakeholders, as well as resources such as Bloomberg and Reuters. We continually review the quality of the service we receive from our providers and engage with them to ensure they remain market-leading and their approach is as aligned as possible with our own.

Case study 14: **Engaging with and delivering feedback to our service providers**

Issue

Railpen votes at over 1,500 meetings each year globally, with many markets having differing voting service requirements. Occasionally, particular jurisdictions or companies will not be covered by our custodian or sub-custodian's voting service. Ensuring that we are able to instruct our vote prior to the cut-off date requires co-ordination between Railpen, our voting service provider, custodians and sub-custodians.

In 2021, we discovered that three companies held within our new Small/Mid-Cap European portfolio, and based in a particular jurisdiction, were not covered by our sub-custodian's voting service.

Unfortunately, owing to an issue with the timeliness of notifications, we were not notified of this until after the cut-off date for the first company had passed, so we were unable to vote this holding.

Approach

In collaboration with our colleagues in Investment Operations, we monitor and record all vote plumbing issues, as well as actions taken to ensure as far as possible that the issue does not reoccur.

Following the unsuccessful vote, we engaged with our provider to clarify why there had been a delay and how the process could be improved going forwards. Our provider noted that they were reliant on timely notifications being received from sub-custodians in the market.

We also contacted the affected company to inform them of the issue and our voting intentions: we thought this was important to communicate as we consider pre-AGM notification of our voting intention to be a key stewardship and relationship-building tool and our portfolio companies appreciate the transparency.

Outcome and next steps

After discussions with our voting platform provider, we have agreed internally that when we are aware that a holding is not covered by a particular custodian, we will proactively contact our voting service provider and custodian to arrange representation.

We also asked our voting service provider to scan our portfolio for any other possible gaps in coverage. Finally, we incorporated our experiences into our 2021 service provider review, raising this as a specific area of improvement for our current provider and asking potential providers for their approach to, and record on, this issue specifically and vote plumbing issues generally.

In light of the growing interest in sustainable investment, the market for service providers across the 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. Case study 15 offers further details on our 2021 review of voting implementation and advice providers.

Case study 15: **2021 Service Provider Review | Voting Implementation and Advice**

Issue

As flagged in last year's Stewardship Report, we undertook a review of stewardship service providers in 2021, to ensure that Railpen has the resources and tools it needs to effectively undertake voting and other stewardship activities on members' behalf. The review had been planned for 2020, but changes in personnel and re-prioritisation of projects during the COVID-19 pandemic led to its postponement by a year.

Approach

Although the original intention had been to assess our providers across ESG data and stewardship services, our plan to shift to a proprietary ESG ratings model meant that it made sense to focus on voting implementation and advisory services for the 2021 review. Although we use one voting implementation platform, we use several providers of voting research and advice: and while different perspectives from different providers on similar votes and issues are of use to us, we were interested to understand whether this could be rationalised.

We assess all current and future service providers in line with Railpen procurement policy. This includes looking for the provider that offers the best value for money – defined as the optimum combination of whole life costs and quality to meet our requirements.

For this review, the Sustainable Ownership team worked closely with Procurement to create and disseminate tender documents that outlined our views on what constituted minimum deliverables for a high-quality service, and what additional services we considered potentially valuable. We were particularly keen for information and evidence of the following:

- Smooth implementation of votes in line with our bespoke Global Voting Policy
- Coverage of and expertise across key jurisdictions, issues and sectors
- Timely, relevant and material voting research
- Timely notifications of any possible plumbing issues
- Current or planned future incorporation of our priority thematic engagement issues into standard research
- Provision of both bespoke and standard templates for stewardship and vote reporting
- Ability to integrate recommendations from other providers into the platform

We asked providers to answer questions that assessed their capacity to fulfil our expectations above. We then offered presentation opportunities to providers and scored the providers using a bespoke scoring template. We also reviewed available reports, such as Stewardship Code publications and reports undertaken for the Best Practice Principles (an initiative designed to support global best practice standards for shareholder voting research providers), before discussing all the evidence and information and agreeing our preferred provider.

Outcome

We were pleased with the quality of the responses and services offered. We chose [to stick with] a provider that, for a reasonable price, not only understood our approach and could provide us with the flexibility and responsiveness a proactive asset owner like Railpen needs but also:

- Had a record of 24-hour availability and a commitment to responding within two hours to any urgent requests
- Could commit to regular senior-level discussions with Railpen about additional improvements to the service and incorporation of our thematic priorities into standard advice
- Offered the ability not only to incorporate recommendations from other providers into its platform, but to provide live data feeds into Railpen's planned ESG dataset
- Provided a useful engagement module that will support Railpen in effectively tracking progress against its engagement (and voting) objectives

Railpen has since signed a contract with this provider, and also rationalised our use of other voting recommendation providers as a result of our review, although we still maintain some variety for the reasons mentioned above.

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 2022.
- **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.
- **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.

Company dialogues and opt-ins to specific coalitions are regularly reviewed with the Chief Investment Officer and the Public Markets team.

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 assessments of transactions, but we are looking to build out this programme as part of our ongoing Manager Assessment Framework process.

Engagement process

Typically 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 aims are set, and various topics are set as priorities. 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 disclosure or simple governance or remuneration changes that are centred around 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.

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

Case study 16: **Direct engagement | Amazon and workforce relations**

Issue

Amazon is held in Railpen's actively managed strategy, through our Fundamental Growth Portfolio. As a result, we have been in dialogue with the company over many years on its long-term growth. Social issues – including responsible technology and working conditions - have been a focus of our engagement so far due to our thematic priorities and the materiality of workforce relations within Amazon's operations. Reflecting this, the company faces several shareholder resolutions on social topics at its AGMs.

Over the past year, Railpen had noted reports of COVID-19 outbreaks at Fulfilment Centres. We also monitored Amazon's activity during the 2021 Retail, Wholesale and Department Store Union (RWDSU) drive in Bessemer, alongside subsequent criticism of its decision to distribute 'vote no' pins and install a mailbox that usurped the National Labour Relations Board's (NLRB) role in administering the vote.

We were therefore keen to discuss our views with the company to further understand their approach to workforce safety and freedom of association.

Approach

Prior to Amazon's AGM in May 2021, we held two calls with a company representative to discuss the Bessemer union vote, how their workforce had been supported – including at Fulfilment Centres – during the COVID-19 pandemic, and relevant shareholder resolutions.

In light of the increasingly productive dialogue - including on remuneration - we were supportive of the majority of management's proposals. However, we also supported the following shareholder resolutions calling for Amazon to provide further disclosure on social issues that are aligned with our thematic engagement priorities and are material to the company:

- Report on Potential Human Rights Impacts of Customers' Use of *Rekognition*
- Report on Customers' Use of its Surveillance and Computer Vision Products Capabilities or Cloud Products Contribute to Human Rights Violations
- Report on Gender/Racial Pay Gap

In addition, we supported the adoption of a policy to include hourly employees as Director candidates. While we recognised that Amazon's Directors are collectively responsible for workforce engagement, we felt that a Director with real-world experience of working conditions at Fulfilment Centres would bring a different and valuable perspective to the Board. We understand that Amazon does not select Board members on the basis of one specific skillset. However, the resolution did not prescribe the appointment of a worker to the Board, but rather for them to be considered in the recruitment process. As it was highlighted during our engagement with the company, Director recruitment is currently not advertised amongst Amazon's broader workforce.

Prior to the AGM, we notified the company of our voting intentions, and our support for disclosure on the effectiveness of COVID-19 safety measures. We proposed a follow-up discussion on workforce-related issues, including their thoughts regarding our encouragement to consider hourly employees as Director candidates and disclosure of key social metrics as part of the Workforce Disclosure Initiative (WDI) 2021 survey.

After the AGM, we held our third meeting of the year in Q3 2021 to continue the discussion on workforce relations and key Voting Policy lines. Following news of a potential re-run of the union election at Bessemer, we discussed whether Amazon would consider adopting a different approach in 2022.

Outcome and next steps

We were pleased to hear that the company has since reached a settlement with the NLRB to notify workers of their labour rights. We also understand that there has been positive progress on WDI data in the wake of our and others' engagements.

We will monitor whether progress with the NLRB is reflective of a broader shift in Amazon's approach to workforce relations. We have scheduled a meeting with Amazon in Q1 2022, which will give us a further opportunity to understand the company's approach to this and other issues, such as the consideration of a Workforce Director, ahead of the 2022 AGM.

Case study 17: **Listed equities engagement | Ryanair and carbon emissions**

Issue
Ryanair Holdings is an important holding in the Fundamental Equities portfolio. As an airline, Ryanair is the largest emitter in the overall Railpen portfolio (based on financed emissions) and it is therefore a key engagement target in Railpen's Net Zero Plan.

Approach
We have developed a proprietary framework, CRIANZA, which enables us to assess the relative climate-related risks associated with any particular equity position in our portfolios. This framework assessment characterised Ryanair as exhibiting 'very low' physical risk, a strong transition profile (given its lower emissions intensity versus peers), and strong current transition profile for the sector given its lower carbon emissions intensity versus peers, and strong climate adaptation potential, offset by the intrinsic high emissions level of aviation.

We were concerned that our analysis revealed a lack of climate-related disclosures in the financial accounts, insufficient alignment with the TCFD recommendations, insufficient medium-term targets, and what we deemed to be a lack of detail on the long-term decarbonisation strategy.

As part of the European Green Deal, with the European Climate Law, the EU has set itself a binding target of achieving climate neutrality by 2050. This requires current greenhouse gas emission levels to drop substantially in the next decades. As an intermediate step towards climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by at least 55% by 2030 ("Fit for 55"). On the back of our assessment we reviewed our valuation assumptions internally to take into account EU's "Fit for 55" policy directive.

We also aired the concerns highlighted above with the Head of Investor Relations and a Manager in their Sustainability team.

Outcome and next steps
While Ryanair is on the lower end of the emissions intensity scale across global airlines and has committed to Net Zero emissions by 2050, its absolute emissions versus Railpen's overall portfolio still leads this to be classified as a 'Climate Risk'.

The voting rights of non-EU nationals have been restricted at Ryanair in the wake of Brexit, as the EU operating license requires a majority EU shareholding. Had they not done so, Ryanair's EU shareholding would have dropped below 50% and it would have lost its license. We are therefore currently unable to escalate or intensify our activity through exercising our voting rights.

As a result, we have particularly focused on engagement and have agreed to maintain a line of communication between the Railpen team and Investor Relations, to work towards further and better disclosure. We will also work with the Workforce Disclosure Initiative (WDI) and the CA100+ investor coalitions to further champion our concerns.

Case study 18: **Listed equities engagement | Teleperformance | Workforce treatment and disclosure**

Issue
Teleperformance provides customer experience management solutions and adjacent products such as back-office services, including content moderation and visa administration and business process knowledge services. It is a holding in our Fundamental Growth portfolio.

In 2021, the company fitted specialist webcams to some employees' computers to check for home-working "infractions". The Guardian reported that "while these [webcams] will in part be used for team meetings and training, the cameras are also connected to an artificial intelligence system that will randomly scan for breaches of work rules during a shift."

Approach
In light of the Guardian report, we spoke with the company's Investor Relations and Corporate Governance teams to understand what was an issue of concern. We heard that the webcams were intended to help Teleperformance provide a better level of service to their clients and training and that employees would not have the webcam watching them at all times.

On the same call, we also discussed our concerns regarding the longevity of their auditor, KPMG, and the succession plan for their CEO/Chair, Daniel Julien. We noted that regular auditor rotation was vital to ensuring professional scepticism and urged a separation of the CEO and Chair roles to better enable effective Board oversight of senior management. We welcomed the news that KPMG would roll off as auditor in the coming years, in line with best practice in France, and although leadership change is not imminent, the company assured us that succession planning is at the forefront of their thinking.

To support our understanding of the company's approach to its workforce, we also held conversations with other investors through UNI Global Union, who had raised complaints in 10 countries about alleged shortcomings in health and safety and respect for freedom of association and collective bargaining during Teleperformance's response to the COVID-19 pandemic. The filing included the high-profile example of workers allegedly sleeping on the floor of their worksites in the Philippines as reported in the Financial Times, and nine instances of the company allegedly dismissing or not renewing short-term contracts in retaliation for workers' exercising their rights.

Outcome and next steps
Although we welcomed Teleperformance's commitment in the meeting to supporting their workforce in the shift to home working, we will continue to monitor their progress further in advance of the next AGM. We also encouraged the company to complete the Railpen/CIPD/PLSA/HIgh Pay Centre Workforce Survey, which collates workforce metrics and measurement in the wake of COVID-19, to help us further understand their approach to what is a material issue.

We will seek to engage further with Teleperformance in Q1 2022 around our Voting Policy update that stresses our focus on fair treatment of the workforce.

Case study 19: **Listed equities engagement | IP Group**

Issue

IP Group is an intellectual property commercialisation company that focuses on evolving ideas, mainly from its partner universities, into widely-used technologies. IP Group is held in Railpen's actively managed Fundamental Growth portfolio. Railpen owns around 16% of the share capital in IP Group.

Approach

As the company's largest shareholder, we maintain a close and transparent relationship with the IP Group team. In 2021, we had several discussions with both management and Board members on changes to the company's remuneration policy for the three years ahead.

The rationale behind changes to the remuneration policy was to more effectively align management incentives, and those of the wider team, with the success of the portfolio as a whole and not only individual investments. We discussed the current labour market in UK private equity as context for the proposed improvements, recent management changes, the need to align the company with long-term shareholders and the requirements of patient capital.

Outcome and next steps

IP Group sets a high bar on ESG, both for disclosure and performance, and we look forward to future discussions on best practice and the company's response to industry developments. Remuneration policy features such as the inclusion of ESG performance metrics and a balance between long-term, equity-based rewards and cash bonuses will be the subject of ongoing dialogue, as industry standards continue to move forward.

We also engage post-investment across other asset classes in a proportionate way. For instance, it is in our interest to enhance a private company's ESG practices, given as a long-term owner we may hold it post-flotation in our Public Markets portfolio. Even where we decide to exit at IPO, meaningful engagement can still lead to greater value at the time of our exit.

Case study 20: **Private markets engagement | Oxford Nanopore Technologies and pre-IPO discussions**

Issue

Railpen has had a significant direct holding in Oxford Nanopore Technologies (ONT) since Q3 2020, when it was still a private company. Our allocation to companies before they list on a public market allows us to support and influence these companies on governance, and other issues, at a critical stage in their evolution. ONT intended to list in 2021 and we engaged on remuneration and share structure issues in the interim, providing the responsible institutional investor perspective.

Approach

Where we hold a significant proportion of a company's capital, we can rapidly build strong relationships with key senior individuals. From the time of our investment in 2020, we discussed our perspectives on: the need for greater disclosure on issues such as auditor tenure and remuneration; ensuring remuneration practices are aligned with the interests of long-term shareholders; the importance of gender diversity at board level; and our preference for equal voting rights.

In mid-2021, as the company was closer to its IPO, we fed back our views on plans to implement an anti-takeover defence mechanism through "limited anti-takeover" (LAT) shares and proposed long-term incentive plans around granting share-based awards to the company's executive directors. We also proposed improvements to the structure of the remuneration, including on the LTIP structure around performance metrics and vesting periods.

Outcome and next steps

The company listed in September 2021 to strong demand and commentary that it was one of the UK's few recent tech success stories. We were pleased that some changes had been made to remuneration structures, in response to feedback from Railpen and other investors.

We also welcomed the implementation of a three-year sunset clause on the dual-class share structure and other significant restrictions around the circumstances under which these unequal voting rights could be exercised. We acknowledge that MedTech share prices can be volatile and, while the company is still at a relatively early stage in its evolution, it makes sense for the founder to maintain some control for a short period of time after listing.

More broadly, our experience of engaging with ONT on its dual-class share structure helped shape some of our broader thinking about our forthcoming collaborative engagement on dual-class share structures (please also see case study 34).

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[9].

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.

Initiative	Railpen role (2021/22)	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)	Lead on two company engagements	Worth of the Workforce
C6 (diversity at USA companies)	Lead on two company engagements	Sustainable Financial Markets
Cybersecurity coalition	Lead on two company engagements	Responsible Technology
Investor Forum	Participant	Sustainable Financial Markets
Investor Coalition on Equal Votes	Coalition Chair and Operational Lead	Responsible Technology/ Sustainable Financial Markets
FAIRR (ESG risks in the global food sector)	FAIRR (ESG risks in the global food sector)	The Climate Transition
Coalition on Facial Recognition	Participant	Responsible Technology

9 *Please also see Identifying material public policy debates and interventions.*

Case study 21: **Collective engagement | Cybersecurity**

Issue

Railpen and NEST's 2019 report 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.

The Bank of England's Systemic Risk Survey 2021 H2 of market participants, including UK banks and large companies, found that 'cyber-attack' was the most cited risk to the UK financial system for the first time since the survey began. Additionally, 'cyber-attack' was cited most often by market participants as the risk that would be the greatest challenge to manage if it were to materialise.

Given the impact of COVID-19 on remote working, the rapid expansion of digitisation across major sectors and the high allocation across our portfolio to the technology sector, "Responsible Technology" was picked as a key thematic engagement priority for Railpen in 2021 (until 2025). Therefore, we have continued to address the systemic risk of cybersecurity through collective engagement efforts, as well as raising the subject in several direct engagements with key holdings such as Microsoft.

Approach

Over the past two years, we have worked alongside the Brunel Pension Partnership, NEST, Border to Coast and the Universities Superannuation Scheme (USS) in a collective cybersecurity engagement led by Royal London Asset Management (RLAM).

Over 35 companies were targeted during phase 1 and 2 of the engagement, to deepen our understanding of the cybersecurity risk landscape, how companies manage cybersecurity internally, and the extent to which this is reflected in their disclosures. During phase 2, Railpen supported dialogue with six companies that are smaller holdings within our portfolio. We were reassured by the companies' responses to our questions on topics including Board oversight, business continuity planning, and certification. We therefore agreed with the group to deprioritise these companies in favour of a newly selected group to reflect changes in portfolio composition and emerging risks.

As a result of the coalition's engagement with 65% of the targeted companies, the group has developed a set of investor expectations which we will continue to refine, and which are publicly available to support other investors' efforts on this issue. These are as follows:

Minimum expectations

- Risk identification and oversight at board level
- A nominated Chief Information Security Officer (CISO) with supporting resources
- Inclusion of cyber covenants in supplier contracts and effective due diligence
- Inclusion of cyber considerations in inorganic growth strategies including in the due diligence and integration phases
- Timely disclosure of cybersecurity breaches
- Disclosures about a cyber-resilient culture, to include tailored training across the workforce

Advanced practices

- Inclusion of information security and cyber resilience in executive compensation KPIs
- Use of NIST Cybersecurity Framework as a reference for cybersecurity risk management
- ISO 27000 for all operations
- Evaluation of cybersecurity in board effectiveness review

Outcome and Next Steps

In preparation for the third phase of our engagement, we undertook a screen of Railpen's 90 largest equity holdings to identify companies that are highly exposed to cybersecurity risks, have recently experienced data breaches, and have not yet provided sufficient disclosure on their approach to risk management.

In early 2022, the coalition will initiate Phase 3 with a newly selected group of twelve companies where we deem cybersecurity to be a material risk to our portfolios. Taking the findings of our screen into consideration, Railpen intends to lead two of the engagements with major holdings in our internally, actively managed portfolio, and proactively support dialogue with two companies that are smaller holdings.

The coalition aims to report on the progress and learnings of Phase 3 within one year of its commencement.

Case study 22: **Collective engagement | Climate Action 100+**

Issue
Environmental impacts such as rising sea levels, ocean acidification, extreme weather and droughts are already evident across the globe, and the IPCC report recommends limiting global temperature rises to 1.5 degrees Celsius above pre-industrial levels to avoid the worst impacts.

Given the systemic nature of this threat to our portfolio, one of Railpen's core thematic priorities is "The Climate Transition". We have long engaged with investee companies and policymakers, both individually and collaboratively to drive the alignment of our portfolio with the Paris Agreement as well as to achieve real-world impact, in support of the UK government's climate commitment.

In 2021, we also announced our commitment to be Net Zero by 2050 or sooner. Our collaborative engagements through CA100+ with those companies that are the biggest contributors to financed emissions – but where we do not have a significant holding – are a key part of our roadmap to achieving Net Zero.

Approach
Climate Action 100+ 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
- 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. Our 2020 Stewardship Report outlined some initial success we had had in leading the engagement with CRH. We have since stepped down from that engagement owing to a rebalancing of our quantitative portfolios.

In 2021, we engaged with several portfolio companies as part of the core investor group, including NextEra Energy, Walmart, Nestle and Southern Company. Issues covered in engagements include climate lobbying and capital expenditure (Walmart), public disclosure of a Net Zero commitment (NextEra), climate accounting and lobbying (Colgate-Palmolive) and the Just Transition (Southern Company).

We are also providing extra support on climate accounting specifically – in recognition of our record on and experience of this issue – to another group of investors on a CA100+ company engagement.

We continue to support CA100+ on policy and market advocacy work, including supporting the initiative in a letter to the South Korean President on carbon neutrality and a climate risk accounting and audit initiative aimed at the Big Four accounting firms.

Outcome and next steps
From 2022, we expect to increase our collaboration with the coalition across key portfolio holdings, including further engagement work on Ryanair, which is a key engagement target as part of our Net Zero Engagement Plan.

We have held some productive conversations with Walmart, and the discussion continues to deepen. However, the investor group has also pulled together a resolution on climate lobbying to encourage further and more rapid progress in this space.

Engagement with other companies has also been positive, with Colgate-Palmolive making progress on TCFD reporting. At the time of writing, escalation activities, including AGMs and filing other shareholder resolutions at some of the companies mentioned here, are being considered.

Case studies 21 and 22 discuss what would be considered a mainstream collaborative engagement, where we combine forces with other investors on a particular issue of concern. However, we also believe in partnering with industry bodies and policy organisations, particularly when producing thought-leadership and practical guidance to support other investors in their own engagements on specific themes. Case study 23 gives an example of our work with investor and company membership organisations.

Case study 23: **Collective engagement | Workforce disclosure**

Issue
There is a growing body of evidence to demonstrate the materiality of a motivated, fulfilled and engaged workforce to sustainable corporate success. Railpen expects portfolio companies to be able to communicate the importance of the workforce, and board engagement with workforce issues, in the context of their business model and strategy.

Railpen has been engaging with portfolio companies directly for several years on how they treat their workforce and aiming to improve the quality of the information they provide. In our 2021 Voting Policy update, we clarified Railpen's expectation of boards to communicate the importance of the workforce in the context of the company's business model and strategy, and how they engage with their employees – including details of activities undertaken and any material outcomes. We also highlighted the importance of providing disclosure on the work undertaken to support employees' wellbeing during the course of the COVID-19 pandemic.

In light of the need for further improvements on workforce disclosure, Railpen was keen to deepen its collaborative work with others in the industry to amplify the investor voice on an important issue. This was in recognition of the limitations of direct engagement in addressing a systemic issues such as inconsistent disclosure.

Approach
In 2021, we decided to build upon our collective work with peers through long-standing activity as part of the Workforce Disclosure Initiative (WDI) and agreed that "Worth of The Workforce" would become a key thematic engagement priority for Railpen from then until 2025.

Throughout 2021, we continued to support the WDI by participating in engagements with three large holdings within our fundamental equities portfolio. We also felt that there was space to gather additional information on reporting trends and pertinent challenges for issuers. Consequently, we worked on a Workforce Disclosure Project in collaboration with the CIPD, High Pay Centre, Pensions and Lifetime Savings Association (PLSA), and the TUC. The project's objective was to deliver a report on the quality of workforce disclosures in the annual reports of FTSE 100 companies according to a comprehensive framework, alongside providing recommendations to key stakeholders. Please also see case study 33 for further details.

As well as providing a broader investor practitioner perspective on the framework and the report, Railpen's role during this phase of the research was to be the 'investor boots on the ground', discussing the framework and seeking detailed input from companies in our direct engagements.

The framework was used to shape discussions with ten of our largest portfolio companies where workforce issues were deemed to be most material, and responses to a short survey on the framework were invited from other holdings.

Railpen is a global investor and conversations took place with executives from companies based in North America, China, Europe and some UK firms. For example, we engaged in dialogue with Tencent, which operates in Hong Kong's technology sector and was held within Railpen's Fundamental Growth Portfolio.

We also held interesting conversations with other companies in the portfolio, including S&P where we heard more about their approach and in particular, what they would find helpful from investors in terms of greater clarity and consistency in the investor community's expectations on workforce disclosure.

Continues on next page

Continues from previous page

Case study 23: **Collective engagement | Workforce disclosure**

Outcome and next steps

Feedback from company engagements

Feedback from our engagements was that the framework was considered sensible and in line with many companies' thinking on useful workforce metrics. We will continue using the framework to guide conversations with companies where workforce issues are material. Key additional insights from our engagements, which we fed through to the research group and have been published in the final report (March 2022), are as follows:

- There is demonstrably greater interest by companies in discussing workforce issues than before the pandemic
- Companies want investors to be speaking with one voice on workforce
- Investors need to acknowledge that certain information can be sensitive
- There is a nervousness around how investors might receive some disclosures
- Companies are more open to considering formal employee representation on boards

Interactions with Tencent

With Tencent specifically, following initial outreach we arranged a call to discuss our findings, an assessment of their reporting, and areas that could be improved upon. Through this dialogue, we were able to gain insight into workforce disclosure practices in the Hong Kong market, and address questions on investor expectations. The company's Investor Relations team asked for our more detailed views around what best practice looks like on whistleblowing for their consideration as to how they might address in future reporting.

We subsequently shared some examples of good practice reporting and, although we no longer have a holding, we will assess progress upon the publication of Tencent's next Annual Report and have assured the company that the lines of communication on this issue remain open.

Our 2022 Voting Policy

In light of the project's findings and based on our assessment of where some of the key issues lie, we developed new Voting Policy lines for 2022 on workforce voice and engagement specifically:

- We will consider a vote in support of the appointment of workforce directors at portfolio companies, where a thoughtful approach to recruiting and retaining a workforce director with the appropriate skills and experience can be evidenced.
- Where the right to freedom of association appears to have been curtailed, we may vote against the adoption of the Report and Accounts or the director we deem responsible.

Our engagements as part of this project, as well as more broadly, have reinforced our belief that the inclusion of workforce perspectives at Board-level can align the interests of shareholders, management and workers over the long term, as well as providing valuable insight into company operations and strengthening communication with stakeholders.

We recognise that there are multiple mechanisms through which this can be achieved, including the appointment of a workforce director. This is why, from 2022, Railpen will be working with others to outline investor expectations around what a meaningful approach to workforce directors looks like in the US and UK markets. This will include: under which circumstances this approach will work best; views on independence and directors' fiduciary duty; and what other steps need to be taken to maximise the positive impact of workforce directors.

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
- 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

The options to the left 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. This is in line with a growing body of evidence that demonstrates that voting in such a way is one of the most effective stewardship tools for achieving positive change.

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 and co-engagement with the Railpen portfolio managers.

More details on our exclusions process is provided in our discussion of negative screening in this report. A list of public statements made at company AGMs is publically available on our website.

Case study 24: **Escalating to a vote at Rio Tinto's 2021 AGM | Remuneration and Indigenous Communities**

Issue
Rio Tinto is held within our quantitative equity portfolio and externally managed passive equity portfolio. Following the company's destruction of two ancient Aboriginal cultural heritage sites in May 2020, an internal review found that the CEO was one of three executives ultimately responsible for failures in risk oversight. In response, the Remuneration Committee decided that the CEO would not receive a bonus pay-out and a malus reduction of £1 million would be applied to his 2016 LTIP award.

Approach
As highlighted by the failures at Juukan Gorge, the interests of investors and Indigenous peoples are threatened when companies fail to uphold their social licence to operate. While Railpen's exposure to mining companies is limited, due to the exclusion of companies deriving over 30% of their revenue from thermal coal and tar sands extraction, we decided to address this sector-wide risk by becoming a signatory of the investor initiative targeting over 70 mining companies to review their policies and processes underpinning relationships with Indigenous peoples.

In the case of Rio Tinto specifically, we were also concerned by the absence of meaningful disclosure on the methodology used to determine the £1 million reduction. Moreover, we noted that the CEO received an LTIP payout of £5,728,000 in FY20, significantly higher than his FY19 payout of £2,814,000. Although this rise was largely due to share price appreciation, we were disappointed that the Committee failed to apply further downward discretion and treated the CEO as an eligible leaver.

Due to the egregious remuneration outcomes during the year under review, we directed a vote against the company's remuneration report and abstained on the Chair of the Remuneration Committee's re-election. In response to Rio Tinto's broader failures in risk oversight, including the lack of adequate controls to properly manage relationships with indigenous communities, we voted against the Chair of the Sustainability Committee.

Outcome and next steps
Over 60% of votes cast were against the remuneration report, with a lower dissent level of 4.9% against the Remuneration Committee Chair and 26.5% against the Sustainability Committee Chair. Rio Tinto has since announced its intention to reflect on shareholder feedback and apply the Remuneration Policy's newly introduced ESG metrics, particularly in relation to heritage management.

We will review progress at the 2022 AGM and continue supporting the investor initiative on mining companies' approach to Indigenous peoples. If progress is deemed to be insufficient, we assess escalation options for Rio Tinto during our upcoming Governance and Conduct Zero-Weight exclusion cycle.

We also see escalation tactics, such as pre-declaring votes or asking questions at AGMs, as a good way to raise general awareness of and apply pressure around a particular theme of concern.

Case study 25: **Escalation | Climate accounting**

Issue
In 2021, Railpen became an active participant in the CA100+ and IIGCC work on Paris-Aligned Accounts. This included becoming lead investor on climate accounting with two companies and engaging with firms to ensure better disclosure of the climate assumptions used in their financial accounts.

We had also been one of the first investors to include specific lines on climate accounting and lobbying in our 2021 Voting Policy update and to raise the topic in our engagements with those of our fundamental and quantitative equities holdings who are most exposed to the impacts of climate change.

Approach
Where our direct or collaborative engagements on climate accounting had not yielded the desired results, we voted against or abstained on the report and accounts of several portfolio companies. We also voted against the remuneration and appointment of the auditors of highly carbon-intensive firms in instances where climate change was not considered as a critical or key audit matter, or mentioned anywhere in the auditor's report.

In other instances, we sought to ask questions at AGMs at our key holdings. We think that doing so can be a valuable way of raising awareness of an issue and obtaining an answer from senior stakeholders. This can be particularly effective in instances where it has not been possible to arrange a meeting, or obtain a response to a letter. In 2021, we asked questions at the AGMs of two companies: Rolls-Royce and Unilever. These questions can be found on our website.

Although we believe that the regulators of both companies and auditors are already clear that material climate risks can be considered in the financial accounts, we also saw an opportunity to encourage UK policymakers to do more as part of their work on broader reform of the audit market. We therefore raised the issue of climate accounting in our response to the June 2021 BEIS consultation on *Restoring trust in audit and corporate governance.*

Our paper encouraged BEIS to explicitly consider what they could do to ensure auditors not only i) consider wider financial information (such as climate risks) but also ii) are incentivised to recruit from a diverse range of backgrounds and specialisms, such as those with a climate or environmental science background.

Outcome and next steps
Climate accounting will continue to play a key role in our assessment of companies' climate approaches, and has been incorporated into our new CRIANZA assessment methodology. This will be used as the basis for our climate engagement with companies and policymakers, where relevant, on this subject in 2022.

We will also continue to vote against the reappointment and remuneration of company auditors as well as the Chairs of Audit Committees, where we think little progress has been made on incorporating material climate change risks into the financial accounts. This activity has been explicitly incorporated into the voting-related aspects of our Net Zero Engagement Plan.

In 2022, we will continue to support at least one other group of lead investors on climate accounting, specifically, through our work with Climate Action 100+. Please also see case study 22.

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.

Case study 26:
2022 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 2022-2023 was reviewed in Q3 2021. This year's voting policy, published in December 2021, includes a new focus on the following topics:

Net Zero alignment

In light of Railpen's own recent Net Zero plan, our voting policy highlights our Net Zero alignment expectations, including how we will assess progress against milestones and where we will escalate to a voting sanction (against the Chair of the Board and/or of any appropriate Committees, or the Report and Accounts as relevant) on climate risk and transition considerations.

Workforce voice and representation

We believe that the inclusion of workforce perspectives at Board level can align the interest of shareholders, management and workers over the long-term. We recognise that there are multiple mechanisms through which this can be achieved, including the appointment of a workforce director. We are likely to vote in support of the appointment of workforce directors at portfolio companies, where there is evidence of a thoughtful and relevant approach. Where the right to freedom of association appears to have been curtailed, we may vote against the adoption of the Report and Accounts or the director we deem responsible.

Ethnic diversity

Diversity is a key component of successful and high-performing Boards. As flagged in last year's update, from this year Railpen will – for the US and UK markets – consider voting against the Chair of the Nomination Committee, or relevant Directors, at the largest and most well-established companies where Boards do not have at least one ethnically diverse representative.

Minority shareholder rights

Differential voting rights dilute the ability of minority shareholders to effectively scrutinise companies. We will continue to support moves to a one-share, one-vote arrangement, but will also be intensifying our engagement with companies and policymakers on this issue in 2022.

Case study 27 discusses in greater detail the development of our thinking on a specific topic in 2021, including how we seek to respond to market developments such as better data availability.

Case study 27: **Evolution of our voting approach | Gender and ethnic diversity**

Issue
Diversity is a key component of successful and high performing boards. It enables members to constructively challenge management decisions and to be more open to innovative ideas, reducing the risk of 'group-think'.

Although there has been progress over the last few years, several companies in developed markets still show a lack of true diversity at board level and across the wider workforce. Railpen believes companies should not just report on but also consider characteristics such as the age, gender, and ethnicity of candidates in their recruitment at both Board-level, as well as their educational, professional and geographical experience.

Approach
In 2021, Railpen moved to more consistent gender diversity board thresholds for markets with established governance practices in our voting policy, raising our expectations in global markets.

Over the 2021 voting season, we worked within this policy to vote against directors 269 times at company AGMs on gender diversity grounds. Where the portfolio company was a major holding of ours, we informed them of the rationale for our vote prior to the AGM and encouraged further engagement; one such instance was at Tencent Holdings Ltd, where we voted against the election of the relevant Nomination Committee member at the AGM and discussed this topic later in the year. It is also worth highlighting that at the AGM of Antofagasta plc in May 2021, the company's board diversity fell below our expectation of 33% gender diversity for the UK market. We therefore voted against the Chair of the nominations committee.

We regularly engage on diversity, as part of our direct engagement with companies and through two coalitions: the 30% Club Investor Group (UK Market) and the Board Effectiveness Coalition (US Market). Our efforts are currently concentrated in these markets since there are existing high levels of disclosure, and a high allocation within Railpen's investment portfolio across these jurisdictions.

Outcome and next steps
While the Antofagasta resolution passed, the company has since improved the diversity of its board. After the 2021 voting season, we considered our approach to diversity in light of changes in available data and broader market developments. We decided that we would clarify in our 2022 Voting Policy update (published in December 2021) that:

i) Our expectations on gender diversity apply equally to all companies, regardless of the market cap.

ii) We will vote against the Chair of the Nomination Committee, or relevant Directors, at large companies in the US and UK where boards do not have at least one ethnically diverse representative.

As reporting on ethnic diversity evolves, we will look to extend this voting sanction to all markets with established governance practices. Similarly, as well as encouraging better disclosure across broader diversity characteristics through our "Worth of the Workforce" programme of work, we will consider possible voting sanctions beyond ethnicity and gender in future.

Where diversity levels do not meet our expectations, we will continue to engage with our portfolio companies to encourage the disclosure of specific targets, actions undertaken to achieve those targets and efforts to diversify the talent pipeline across the broader organisation.

Within the investor coalitions where we are a lead investor, we continue to consider diversity beyond gender. We welcome the decision to engage on broader diversity characteristics to play a more prominent role in both the 30% Club Investor Group and the Board Effectiveness Coalition going forwards.

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.

We also believe in exercising our stewardship responsibilities across the full portfolio. This includes playing an active role in 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.

Case study 28: **Fixed Income voting: Intu SGS**

Issue

In last year's Stewardship Report, we discussed our approach to engaging with Insight Investment Management (Insight), our external fund manager for a buy and maintain corporate bond mandate on a series of consent solicitations at Intu SGS in 2020. In 2021, Intu launched fourth and fifth consent solicitation proposals to waive certain events of default and enable completion of its financial restructuring: these proposals required us to exercise our voting rights.

Approach

We have an arrangement with the relevant fixed income external manager whereby we receive analysis from our manager to supplement our own internal analysis and implement the vote ourselves.

Due to the complex nature and direct financial implications of bondholder resolutions, our proxy research providers are often unable to provide relevant analysis. Therefore, the Sustainable Ownership team formulates instructions for bondholder resolutions in collaboration with our external managers.

We discussed the situation with our external managers and the need to ensure that Intu retained a stable financial platform during the implementation of its long-term financial restructuring. We were optimistic regarding the direction of travel brought about by new management and agreed that the retail commercial real estate market might stabilise in time. We therefore decided to vote for the relevant resolutions.

Outcome and next steps

Both the aforementioned proposals passed. We will continue to engage with Insight on the long-term financial restructuring of Intu SGS, with the aim to maximise its ultimate recovery value.

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 a pooled passive equity 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:

- Using 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 with 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 and the Investment Association's Stewardship Reporting Working Group

In 2021, we also used the process for production of the Implementation Statement[10] as an opportunity to dig further into the voting behaviour of our external asset managers where they exercise votes on our behalf. Railpen informed 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 to use in producing the Implementation Statement section on their voting behaviour. This exercise has given us greater comfort regarding the alignment of our managers' voting priorities with our own given:

- Confirmation from the asset manager that many of our key 2021 (and forthcoming 2022) engagement and voting priorities are aligned with their own
- That the asset manager voted in many instances in the same way as Railpen did on major shareholder resolutions
- Their willingness to have a dialogue on their voting behaviour and our voting priorities for 2022

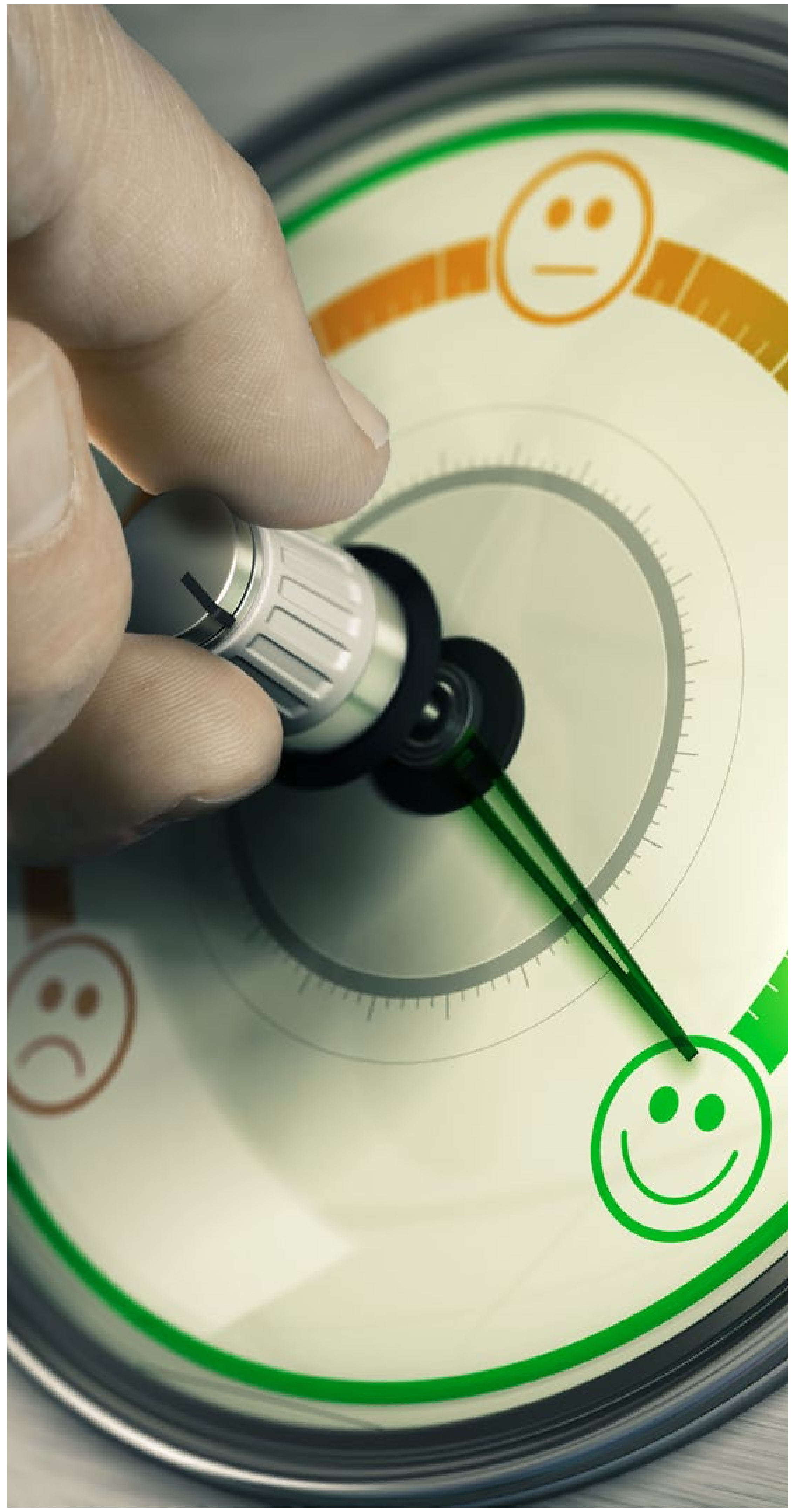
We confirm the allocation of responsibility for voting rights regularly in our monitoring and review meetings with managers, as well as receiving weekly loan reports from our Middle Office team (please see section on stock lending).

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 its voting decision, as well as research and information from other providers, including Glass Lewis, ACSI and PIRC. However, Railpen makes all voting decisions and the Sustainable Ownership team works with the Investment Management team to apply professional judgement and intelligence, 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 which are discussed with the CIO.



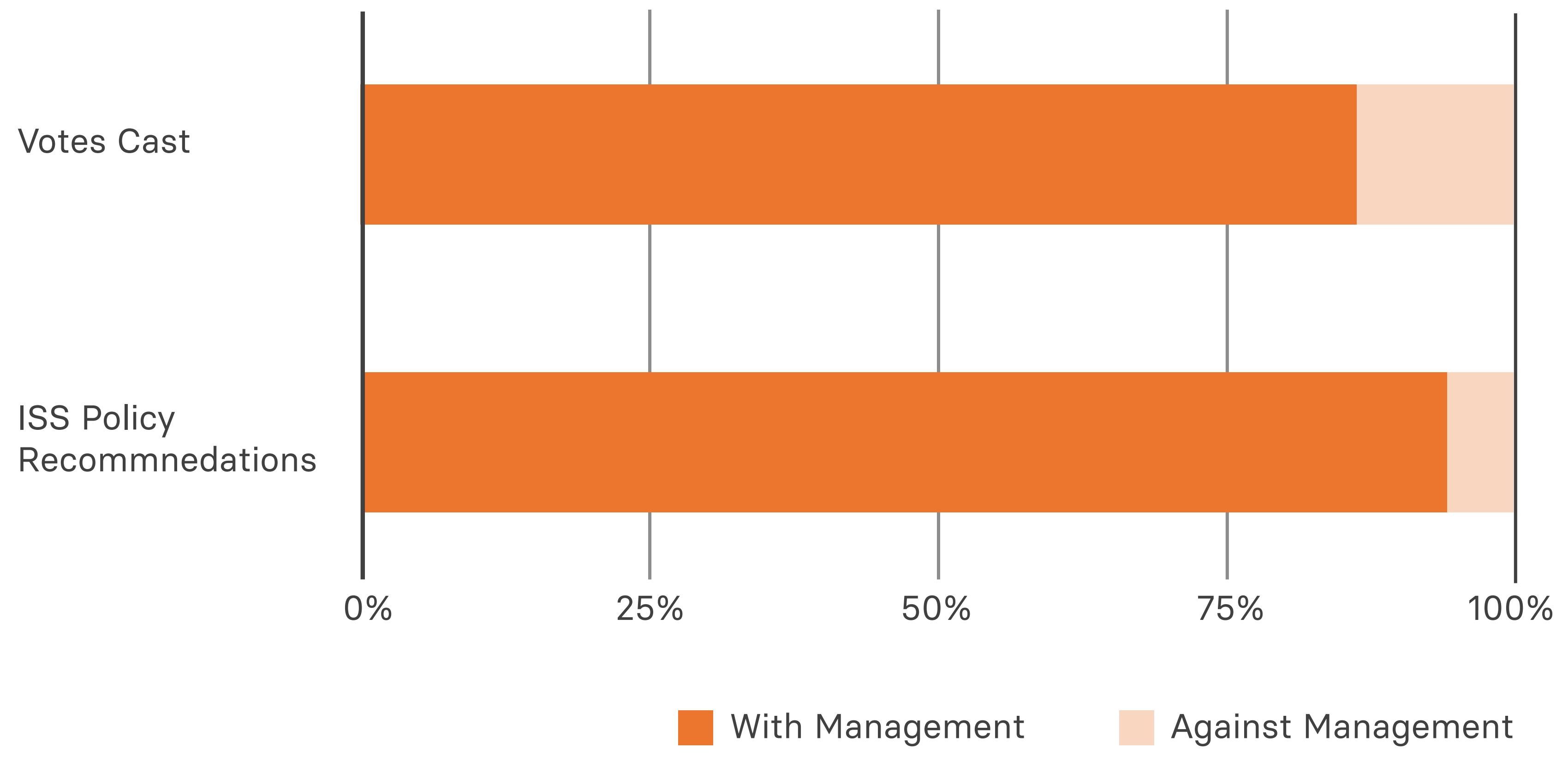
[10] *The Implementation Statement is an annual regulatory report where trustees are required to set out how they have put their statement of investment principles (SIP) into practice. This includes disclosures in relation to stewardship and engagement*

2021 Voting Statistics

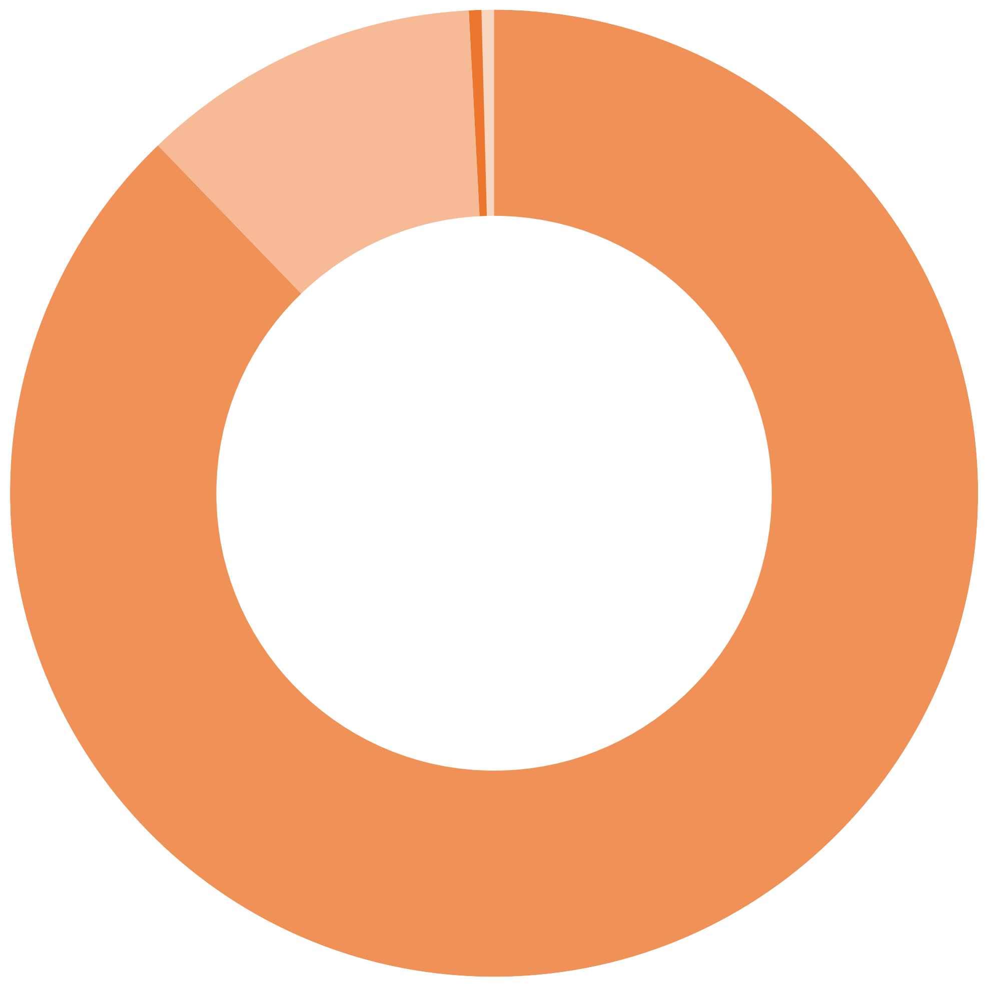
Number of meetings voted	1,678
Percentage of meetings voted	99.06%
Percentage of meetings with at least one vote against, withheld or abstain	58.26%

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 88% of cases, while the ISS Benchmark Policy recommendations are at 95% alignment with management recommendations.

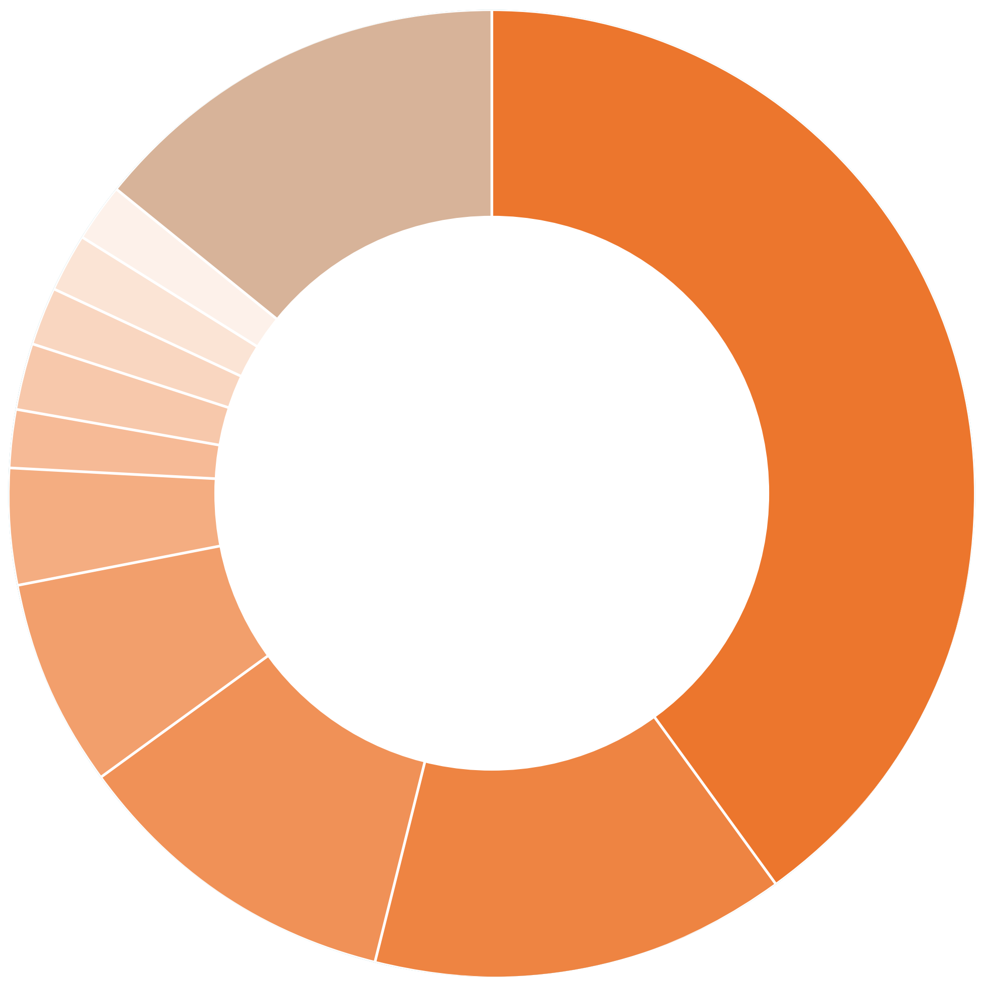


Voting Outcomes



- Votes For: 87.8%
- Votes Against: 11.4%
- Votes Abstain: 0.4%
- Votes Witheld: 0.4%

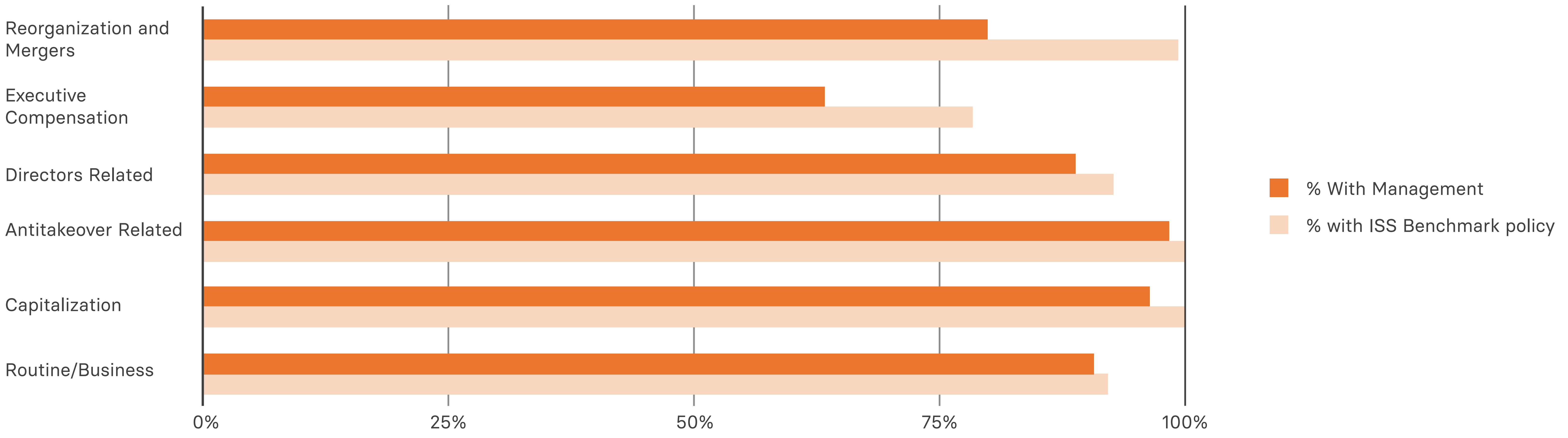
Meetings voted by market



- UK: 40%
- USA: 14%
- China: 11%
- Japan: 7%
- Guernsey: 4%
- Cayman Islands: 2%
- South Korea: 2%
- Ireland: 2%
- Jersey: 2%
- India: 2%
- Other Markets: 14%

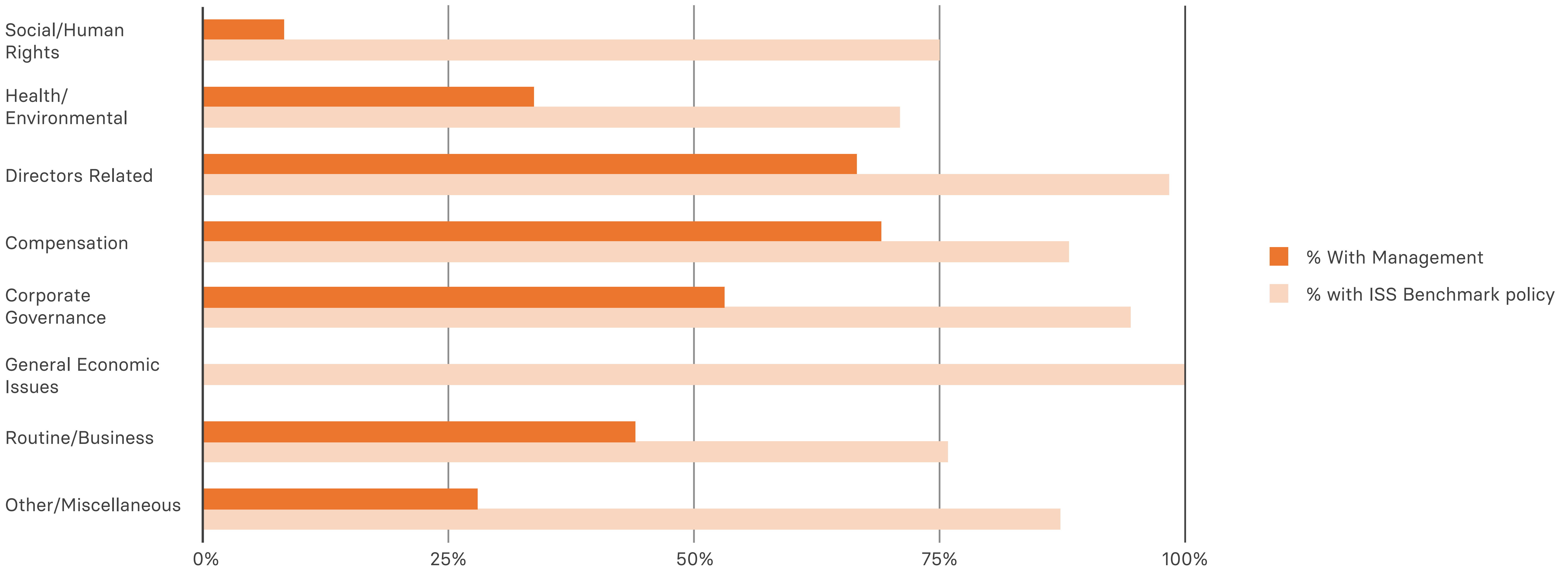
Votes cast on management proposal categories

- 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 55% 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

- Votes cast on shareholder proposals in opposition to management, reflect Railpen support for proposals submitted by shareholders.
- During the reporting period Railpen has shown the highest level of support for shareholder proposals related to general Economic Issues, at 100% and the lowest level of support for shareholder proposals related to Compensation, with 31% of proposals supported in this category.
- Across categories, votes cast on management 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, 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:
  - The impact of COVID-19 on companies, their workforce and their AGMs
  - Remuneration
  - Auditor tenure
  - Board composition and effectiveness
  - Climate change
  - Votes on high-profile shareholder or management resolutions

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 and attendance.

Case study 29: **Directing the vote at Microsoft's 2021 AGM | Leadership and corporate culture**

Issue
Microsoft is a major holding in our Fundamental Equities portfolio. We have previously engaged constructively on a number of issues, including workforce disclosure, how they have supported their workforces during COVID-19 and our longstanding support for their separation of the CEO/Chair role: historically, many US companies have combined these roles.

Approach
We actively discourage the combination of the Chair and Chief Executive roles, as this can compromise the independent oversight of management and diminish the representation of shareholders' interests at Board-level. We also generally discourage the elevation of a company's Chief Executive to that of Chair, unless it is part of a transitional period at the company, or if the company can present a compelling justification for the move. This is a long-standing Railpen principle and has been part of our annually-updated Voting Policy since 1992. We send this Voting Policy to all our major holdings each year.

Shortly after a 2021 discussion with Microsoft where, amongst other issues discussed, we expressed our continued support for their separate CEO and Chair roles, it was announced that Satya Nadella would become Executive Chair. We have subsequently flagged our concerns.

In light of this shift, our custom Voting Policy recommended a vote against the election of Satya Nadella. However, in recognition of his fundamental importance to the company's strategy we softened our stance to an abstention. Taking into consideration the Nomination Committee's central role in this leadership transition, alongside the lack of transparency over allegations that Bill Gates enabled a culture of harassment, we instead directed a vote against the Nomination Committee Chair.

To encourage greater transparency, we also supported the shareholder resolution requesting a report on the effectiveness of Microsoft's workplace sexual harassment policies. Despite Microsoft's belief that a report on sexual harassment policies was "unnecessary", we believed that the company needed to go further to address the findings of independent investigations and public reporting on Bill Gates' case.

Outcome and next steps
The level of dissent against Satya Nadella was relatively low at 5.3%, and 8.6% of votes were directed against the Nomination Committee Chair. The shareholder resolution passed with 78% support and we will monitor progress against its requests.

In sending our latest Voting Policy update to Microsoft in January 2022, we have specifically requested a meeting to discuss this and the move to the Executive Chair arrangement.

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 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 30: **Directing the vote at Nestlé's 2021 AGM | Climate Accounting**

Issue

Nestlé is a major holding in our Fundamental Equities portfolio, and we are engaged in an ongoing dialogue on the company's approach to ESG factors. We recognise the significant progress made by Nestlé on front-end climate reporting. However, as a globally significant GHG emitter (particularly on Scope 3 emissions), we were concerned that the company has not yet incorporated material information about climate-related issues into their financial statements, despite engagements on the topic from Railpen and others in recent years. We also wanted to see an explicit discussion of climate change by the auditor in its Key Audit Matters report.

Approach

We arranged a pre-AGM engagement to discuss Nestlé's Climate Action Plan, amongst other issues, and Railpen's expectation that climate change risks should be reflected in the financial accounts and narrative reporting. In this meeting, we were pleased by the genuine commitment and enthusiasm to go further by Nestle. We also engaged collectively with Nestlé as part of the Climate Action 100+ lead investors group, which played a significant role in the company's decision to allow a vote on its climate strategy at the 2021 AGM.

Outcome and next steps

We ultimately decided to vote against the auditors but, in recognition of the progress made by Nestlé on front-end reporting and the positive engagements and conversations, abstained on the Report and Accounts. We informed the company in advance of our vote and look forward to continuing engagement with Nestlé and other major holdings in our portfolio on climate accounting – including as a lead investor with some companies on climate accounting issues specifically as part of the CA100+ initiative.

Since the 2021 AGM, we were pleased to see that Nestle has incorporated material information about climate-related issues into their financial statements.

Case study 31: **Directing the vote at BHP's 2021 AGM | Climate Transition Plan**

Issue
2021 has seen intense activity with a record number of climate resolutions placed both by management – in many cases as a response to shareholder activity – and by shareholders themselves.

As a response to the sudden surge in activity and the need to ensure a coherent and consistent approach, Railpen pulled together in Q1 2021 comprehensive internal voting guidance on 'Say on Climate.' This was designed to support analysts across the Sustainable Ownership team in assessing whether or not to support a climate resolution.

We used this document to guide our voting on subsequent 2021 'Say on Climate' votes, including at BHP's 2021 AGM.

Approach
During the 2021 peak voting season, we approached Say on Climate resolutions on a case-by-case basis. Our decisions are based both upon the content of any transition plans put forward and the context i.e. whether the company could be considered to be making good progress against its peers based on data obtained from annual or sustainability reports, third party data providers and proxy advisors etc - using intelligence from any collaborative engagements – and whether a shareholder request was proportionate to the company's approach to climate change.

As with all our voting decisions, we prioritised time spent on consideration of resolutions according to relative shareholding in our portfolios and alignment with our thematic priorities (and whether the voting decision supports us to achieve our engagement objectives and broader strategy).

BHP faced a vote on its Climate Transition Action Plan at the 2021 AGM. We assessed the plan through application of our internal framework, which concluded in a vote against due to:

- The absence of a detailed climate strategy and capital allocation details in the transition plan
- Railpen's internal assessment of BHP as a "high climate risk" investment and "committed" to Paris goals
- A lack of alignment between BHP's targets and emissions intensity and the goal of limiting global warming to 1.5 degrees
- The climate transition plan was not sufficiently specific on several items including future capex, internal carbon assumptions and emissions calculations
- The need for more formal TCFD reporting

Outcome and next steps
Railpen will continue to collaboratively engage with BHP through CA100+ to steer its transition to Net Zero.

Due to increased media attention and corporate commitments we expect the momentum from investors and governments on publishing climate transition plans to grow in 2022/23. Our Say on Climate internal guidance has been incorporated into the voting-related aspects of our Net Zero Engagement Plan, which will guide our future votes on climate transition plans. Some high-level details were published in our 2022 Voting Policy update in December 2021.

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 2022 – 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.

Stock Lending

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.

We have agreed that none of our Fundamental Growth Portfolio holdings will be eligible for the securities lending programme. This will enable 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.

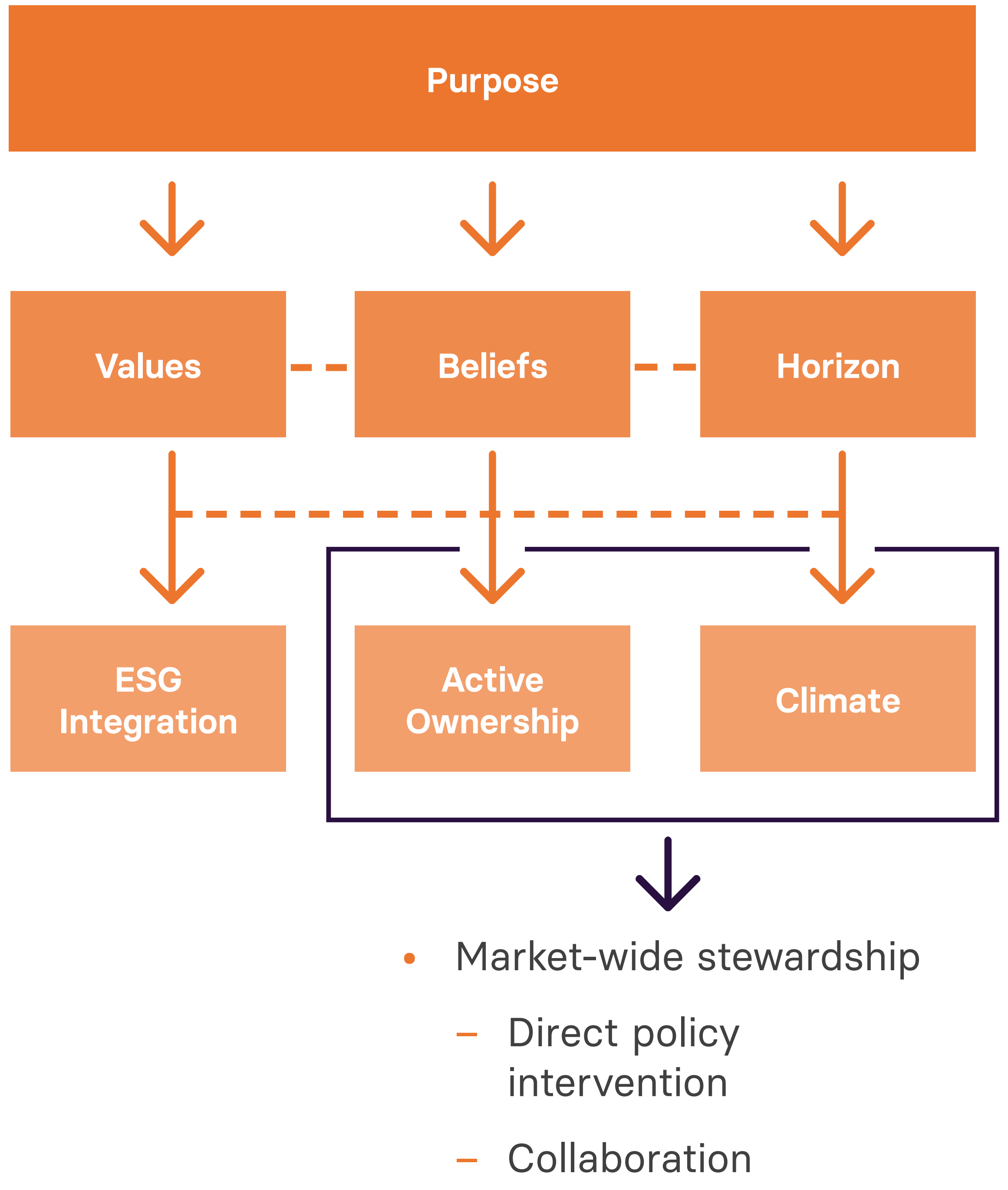
WORKING TO TACKLE MARKET-WIDE RISK

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 RPS.

Our work to tackle market-wide risk includes our engagement and voting on thematic issues like climate change, COVID-19 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

Identifying material market-wide issues

The Sustainable Ownership team has a 'triage' process whereby we work with others across Railpen, including the Investment Management team, Client Investment Services, Trustee Governance, Technical Services and Industry Affairs 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 2021 our thematic priorities were:

- The Climate Transition
  - Climate accounting and Paris-aligned accounts
  - Biodiversity and deforestation
- Worth of the Workforce
  - Treatment during COVID-19 and beyond
  - Workforce reporting
  - Modern Slavery
- Responsible Technology
  - Cybersecurity
  - Governance of 'Big Tech'
- Sustainable Financial Markets
  - The audit market
  - Minority shareholder rights

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.

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 2021 our public policy work focused on debates such as changes to the UK listings rules and the nature of sustainable investment regulation for UK pension schemes. All our policy responses can be found on our website.

The following case studies provide insights into our 2021 activity on thematic priorities including workforce, climate change and equal voting rights.

Case study 32: **Policy advocacy on workforce issues in 2021**

Issue

Railpen has long believed that whether a company has a committed, motivated and fulfilled workforce is a fundamental contributor to its financial success. However, unlike disclosure of "E" metrics such as carbon emissions, or "G" information such as board director tenure or remuneration policies, there is a lack of clear, consistent and comparable information from both public and private companies on important workforce issues such as the ethnicity pay gap, turnover and whistleblowing incidents.

Railpen believes companies urgently need to produce better and higher quality information on workforce issues to support investors in making appropriate decisions and identify priority areas for engagement.

We have therefore focused our 2021 activity on policy and market advocacy to improve the flow of material, relevant and high-quality information on workforce issues from companies to investors.

Approach and rationale

Railpen continues to undertake direct and collective engagements with portfolio companies to identify areas for improvement in their disclosures on workforce issues. However, we recognise that this is a system-wide issue and that the most effective solution is likely to be through policy or regulation.

In 2021, we sought to influence the policy environment to i) encourage more consistent disclosure from companies on workforce issues and ii) encourage investors to use their influence with companies.

In light of Railpen's high allocation to UK companies, both listed and private, and the closer nature of our relationships with UK policymakers as a UK pension scheme, we focused our efforts on UK regulation through:

- **Jointly issuing recommendations to policymakers in our report with the CIPD (Chartered Institute of Personnel and Development), the High Pay Centre and the Pensions and Lifetime Savings Association (PLSA) (March 2022).** A key recommendation was asking the FRC to produce a standard baseline workforce reporting framework in advance of the International Sustainability Standards Board (ISSB) work.
- **Responding to DWP's call for evidence on social issues (June 2021).** We provided insights into our own approach and also argued that The Pensions Regulator (TPR) and others should provide greater support, resources and education on social issues and stewardship for trustees.
- **Highlighting the need for more practical guidance for pension schemes (December 2021)** on stewardship activities around workforce issues in our response to the Department for Work and Pensions (DWP) consultation on climate and stewardship reporting in December 2021.

Outcome and next steps

We are pleased that the Minister for Pensions continues to highlight his support for investor action on social issues. As part of the workforce disclosure project coalition, conversations with policymakers also indicate that workforce will be a priority for the new ISSB.

Railpen will continue to work with the CIPD and the PLSA to advocate for the policy recommendations made in our joint March 2022 report.

Case study 33: **Responsible Technology and Sustainable Financial Markets | Dual-Class Share Structures (DCSS)**

Issue
Railpen's internally-managed portfolios have several holdings of over £100 million in technology sector companies like Meta, Amazon, Apple and Alphabet (Google). There is also exposure to companies across biotech and fintech such as Starling Bank and Oxford Nanopore Technologies. Many of these companies are held in our Fundamental Growth Portfolio, which takes a conviction-led, bottom-up approach to stock selection.

Analysis undertaken by the Railpen team in 2021 on the sector indicated a concentration of several ESG issues, including human capital management and human rights issues. It also uncovered a significant prevalence of poor governance practices (including classified boards, plurality voting and a high proportion of inside or executive directors).

Further Railpen analysis pinpointed the prevalence of unequal voting rights (DCSS) across the technology industry as being one of the potential causes of poor governance and conduct, owing to the subsequent dilution of minority shareholder influence. Although some individual investors and investor bodies have tried to push back against DCSS, policymakers in jurisdictions like the US, the UK and China are increasingly working to enable DCSS to attract high-growth firms.

Given the implications for minority shareholder rights and effective stewardship, the far-reaching – beyond the technology sector – implications of greater enabling of DCSS structures by policymakers, and the materiality to our portfolio, in 2021 Railpen decided to tackle the issue of DCSS as a priority from 2022. This work falls within both our "Responsible Technology" and "Sustainable Financial Markets" thematic priorities.

Approach and rationale
In 2021, specific Railpen work included:

- Drafting a response to the FCA consultation follow-up to the Hill Review (we reported on this in our 2020 Stewardship Report), where we expressed disappointment with the shift to allowing DCSS on the Premium Listing of the Stock Exchange and urged stricter corporate governance safeguards. As well as submitting our own response, we also fed through to the PLSA response.
- Sending a letter, as part of a CII campaign, to the US House Financial Services Committee expressing our support for the CII draft Bill which would require stock exchanges to require companies listing with unequal voting rights to implement short term sunset clauses. Railpen was the only non-US investor to join this campaign.
- Publishing new lines in our 2022 Voting Policy update to highlight our support for one-share, one-vote arrangements and our intention to advocate more forcefully with policymakers, pre-IPO companies and IPO advisers against DCSS.
- Voting in support of every one-share, one vote shareholder proposal.
- Planning, and seeking committed and aligned partners for, a multi-phase campaign of activity and engagement. In light of our priorities for engagement – in the US, with pre-IPO firms and IPO advisers – we have focused on coalition partners with i) influence and presence in the US market, and ii) extensive private market allocations.

Outcome and next steps
So far, efforts from Railpen and other investors to persuade the government to reduce the maximum unequal voting weight from 20:1 to 10:1 have not been successful.

However, this emphasises the need for more co-ordinated action with the investor community aimed at key policy and market decision-makers from 2022 onwards.

In December 2021, we formally agreed to work with the Council of Institutional Investors to lead the "Investor Coalition on Equal Votes".

This is the first step to building a core investor group led by Railpen.

In line with our 2022 Voting Policy update on one-share, one-vote, we will be looking to raise awareness of the issue at relevant company AGMs by pre-declaring our voting intentions and/or asking questions at AGMs.

Case study 34: **Shaping public policy to achieve the goals of the Paris Agreement**

Issue
Railpen believes that widespread changes at policy- and market-level are required to shift the world onto a Paris-aligned trajectory and minimise the impacts of climate change across our portfolio.

This is why, as part of our Net Zero roadmap launched in 2021, Railpen committed to continuing our long-standing policy advocacy activities to promote progressive climate action and a just transition by policymakers and market participants, doing so strategically with our goal of "net zero by 2050 or sooner" in mind.

Approach and rationale
How and where we choose to engage with policymakers on climate change depends on:

- The extent of our likely influence
- Our assessment of the importance to the climate transition of the actor being engaged and the issue being engaged upon
- Our investment strategy

With this in mind, our 2021 policy engagement focused on the UK because:

- As a UK pension scheme, we have good relationships and greater leverage with UK policymakers
- UK leadership of COP26 provided an excellent opportunity to influence
- We have a significant investment allocation to UK government bonds

We also focused our policy interventions on encouraging a better flow of consistent and comparable climate change information across the investment chain. We consider this a near-term policy priority owing to investors' fundamental need for such information to make the investment and engagement decisions required to achieve real-world change.

In 2021, we submitted written responses to the following consultations:

- The FCA's consultation on climate-related disclosures by asset managers (June 2021). We made suggestions for ensuring more robust and contextualised disclosures from asset managers and other FCA-regulated firms.
- The TPI's response to the TCFD consultation (July 2021) on forward-looking financial sector metrics. We, as part of the TPI Steering Committee, urged a more cautious approach to adopting portfolio alignment metrics to ensure any work undertaken generates decision-useful information.
- DWP's consultation on climate and stewardship reporting by pension schemes (December 2021). We cautiously welcomed mandating minimum standards on portfolio alignment in future TCFD reports, but also urged the need for a patient, nuanced approach which explicitly recognises the limitations of current company disclosures.

As well as submitting our responses, we also worked with organisations such as the PLSA, UKSIF, the PRI and the IA to help shape their consultation responses on behalf of the industry.

Outcome and next steps
As a result of our interventions on climate reporting both by pension schemes and asset managers, the UK government and regulatory officials have requested meetings with Railpen to discuss our perspectives and policy suggestions in further detail.

We will continue to engage both directly and with others to ensure a pragmatic approach to climate reporting by regulators, which helps schemes achieve real world impact on climate change.

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 climate accounting, unequal voting rights, workforce reporting and biodiversity
- Steps taken by proxy advisers to more fully consider and integrate workforce and other social metrics into their standard advice
- Proactive requests from regulators and government officials to understand how Railpen undertakes and approaches issues including voting and Net Zero
- Requests from membership organisations in the sustainable investment space for Railpen individuals to join their formal governance and policy-making committees

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 2021, we got formally involved in a few new initiatives and industry committees where we thought we could make a meaningful contribution and achieve real change. This included:

- Being appointed to the ICGN's Global Stewardship Committee
- Agreeing to co-chair the IIGCC's Net Zero Stewardship Taskforce
- The Occupational Pension Stewardship Council

In addition, we also support a member of our team in having 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 which provides research and public policy recommendations on responsible capitalism and other issues.

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
British Venture Capital and Private Equity Association	BVCA	Impact Investment Advisory Group	Discuss and advise on best practice in private market investing in the UK
Financial Reporting Council	FRC	Investor Advisory Group (wound up end of 2021)	Discuss matters relating to accounting, audit, corporate governance, and stewardship, particularly in the UK market, presenting the investor perspective to the FRC
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	Paris Aligned Investment Initiative Global Steering Group; Co-Chair, Investor Practices Advisory Group	Advise on a range of initiatives, including a Net Zero Investing Framework, that support investors' alignment with the Paris goals

Organisation	Acronym/ Initialism	Committee	Remit of committee
Institute of Directors	IoD	Stakeholder Governance Working Group	Advise on corporate engagement with stakeholders (and disclosure)
Investment Association	IA	Stewardship Reporting Working Group	Feed back on regulatory requirements and discuss best practice around stewardship reporting
NextGen Pensions	n/a	Main Committee (Vice Chair)	To provide strategic direction for group (objective: to promote fresh faces/perspectives in pensions industry)
Occupational Pension Stewardship Council	OPSC	Alphabet Working Group (Chair)	Share best practice and collaboration on stewardship issues
Pensions and Lifetime Savings Association	PLSA	Stewardship Advisory Group	Advise PLSA on SO 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	Discuss LGPS RI issues

Organisation	Acronym/ Initialism	Committee	Remit of committee
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
Value Reporting Foundation (formerly Sustainability Accounting Standards Board)	VRF (formerly) SASB	Investor Advisory Group	Discuss developments in ESG standards globally, presenting the investor perspective on the strategy and approach of VRF

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
International Corporate Governance Network	ICGN	Global
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
Global Institutional Governance Network	GIGN	Global

GLOSSARY

- **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.
- **Defined Benefit (DB).** A 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 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, 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.
- **Debt (or credit).** If an investor buys a debt instrument, they loan funds 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, 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

  – Climate risk
  – Carbon emissions
  – Energy usage
  – Raw material sourcing
  – Supply chain management
  – Waste and recycling

  Social

  – Community relations
  – Employee relations
  – Health and safety
  – Human rights
  – Product responsibility
  – Workforce diversity

  Governance

  – Board structure
  – Executive remuneration
  – Bribery and corruption
  – Separate Chair and CEO roles
  – Shareholder rights
  – Vision and business strategy
  – Voting procedures
- **ESG Integration.** Incorporating of *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.
- **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.
- **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 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.

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 Appendix 2 – New Trustee Investment Beliefs
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 3 – Internal Assurance Our Philosophy and Approach How our structures enable effective stewardship Working to tackle market-wide risk
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
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: NEW TRUSTEE INVESTMENT BELIEFS

1. **Managing asset-liability risk is integral to long-term pension outcome.**

   A scheme's ability to take on investment risk in excess of the minimum risk inherent in its liabilities is finite. Railpen's mandate is to advise on and manage this investment 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.

   To achieve this, Railpen focuses on a small number of asset-liability risk drivers that can really impact a scheme. We then closely manage them, ensuring risk and success measures are able to support good long-term focused investment decision-making.

2. **Long-term focused investment decision making has many advantages that should be carefully exploited.**

   Many of the sections within the railways pension schemes have long investment horizons. Along with a stable asset base, this allows the schemes and sections to harness the benefits from illiquid assets, and for Railpen to focus on long term valuations and cash flows when managing the assets.

   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.

3. **Diversification of the overall investment portfolio, across different structural drivers of return, improves the resilience of a scheme's assets in an uncertain world.**

   When designing investment portfolios, Railpen focuses on diversifying the underlying structural drivers of cash flows and return rather than short-term risk relationships, which are often driven by liquidity and risk-aversion. We believe there is value in analysing how different asset types perform in different environments through history and thinking through the fundamental drivers of an asset going forward.

   Investment decision-making is aligned to delivering the best overall asset portfolio rather than overly focusing on individual components. Leverage is used to support the diversification of investment risk and ensure key asset-liability risks, such as inflation and interest rates, are managed in a capital-efficient way.

4. **Incorporating and acting upon climate risk and other environmental, social and governance factors is a significant driver of investment outcomes 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.

5. **Effective portfolio management requires flexibility around a thoughtfully considered investment strategy.**

Focusing on long-term asset and liability risk relationships across different macro and market environments to design an investment strategy tailored to a scheme's objectives and characteristics provides robustness to an investment process. However, risk relationships change over time, implementation often differs from the assumptions in a model – both in risk profile and ability to deploy – and market opportunities rarely align to investment strategy reviews.

Railpen increases the effectiveness of its investment process by focusing on the desired risk-return characteristics from the schemes' assets using a multi-asset approach. This approach supports allocating to investments with favourable reward-to-risk profiles in a timely manner, without compromising the schemes' overall investment and funding strategy. Opportunistic investing can add material value over time but must be appropriately managed.

6. **Investments should be selected, structured and sized in a manner aligned to a scheme's long-term objective.**

Overly diversified market-capitalisation weighted indices, or herding towards popular strategies, do not necessarily provide a good starting point for portfolio construction. 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.

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. We try to focus on less crowded areas of the market, but ensure we fully understand the value and risk of any investment we make.

Railpen 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, whilst 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.

APPENDIX 3: INTERNAL ASSURANCE

Railpen's approach to assurance for this report is built upon the approach taken to assurance in 2020 and 2021, to support the production of our 2020 Stewardship Report. As in previous years, we chose 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 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'.

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.

These changes included:

- Fully completing all recommendations arising from the function's External Quality Assessment in 2021
- Creation and monitoring of, a Quality Assurance and Improvement Programme, designed to give the Board, Audit and Governance Committee and ExCom oversight on the performance and effectiveness of the internal audit function
- Full review of the internal audit methodology deployed by the team, with a number of enhancements made as a result
- Rebranding of the team's name from 'Business Assurance' to 'Internal Audit' to better reflect the nature of the work performed and to make this clearer for internal and external stakeholders

Railpen's Audit and Governance Committee approved this approach in December 2021 as part of the 2022 Internal Audit Plan.

The approach for this Report

In previous years, assurance has focused on the underlying controls and processes in operation to support fair and transparent reporting under the Code. It was agreed that instead, this year's assurance would focus on a sample of case studies across the Report, for the following reasons:

- The underlying controls and processes had been reviewed, but had not changed substantively since the previous report. This meant that there would be limited additional impact from Internal Audit re-running its review.
- 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 claims around outcomes and the Railpen team felt that it would therefore be particularly useful to undertake assurance and ensure we could justify these statements.

It was agreed that Internal Audit's coverage of case studies would be in line with the team's Railpen-wide sample selection criteria in accordance with Internal Audit Standards.

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, Internal Audit:

- 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
- 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 2021 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, which have been applied within the final version of the report.

APPENDIX 4: 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. Despite this break, we continue to consider and apply the six PRI Principles, and have mapped our stewardship report to the Principles to the right.

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 Appendix 2 – New Trustee Investment Beliefs
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 Appendix 2 – New Trustee Investment Beliefs
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 Appendix 2 – New Trustee Investment Beliefs
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 Appendix 2 – New Trustee Investment Beliefs
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)

100 Liverpool Street, London, EC2M 2AT
SO@railpen.com

RAILPEN