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Via email: pensions.governance@dwp.gov.uk

16th June 2021

Dear Emma,

**Railways Pension Trustee Company Limited (RPTCL) response | DWP Call for Evidence -** ***Consideration of social risks and opportunities by occupational pension schemes***

I am writing to you on behalf of the Railways Pension Trustee Company Limited (RPTCL). The Trustee Company's wholly-owned subsidiaries, RPMI and RPMI Railpen, run the railways pension schemes on its behalf.

RPMI Railpen (Railpen) is the trading name of Railway Pension Investments Limited, authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for managing c.£32 billion of assets.

Railpen implements the Trustee's mission "to pay the pensions of our 350,000 members securely, affordably and sustainably". Both the Trustee Company and Railpen undertake responsibilities attributed to asset owners and asset managers. We have answered the issues raised in the consultation in a way which reflects the breadth of our responsibilities.

We welcome the opportunity to discuss some of the important issues raised in this Call for Evidence. Our views build upon some of the themes outlined in our response to the Minister's letter in February 2021 on stewardship, governance and social issues. We would be very happy to provide further information or clarification, should that be helpful.

**The Railpen approach to "Sustainable Ownership"**

The Railways Pension Scheme includes many open defined benefit sections, which means that the Trustee expects to be paying the pension of an eighteen-year-old, who is in their first job today, out to 2100 and beyond. Therefore, both the Trustee and Railpen consider our investment time horizon to be very long. We manage the investments in line with this mandate from the Trustee.

Sustainable Ownership is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of beneficiaries. The Trustee's related investment belief enables this work: "Environmental, social and governance (ESG) factors materially impact long-term investment returns and must be taken into account."

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 beneficiaries retire into. Railpen believes that incorporating these lenses into the investment process increases the likelihood of achieving the Trustee's mission. We then use the lenses to inform the three areas within Sustainable Ownership:

- Active ownership: Railpen's approach to engagement and voting;
- ESG integration: incorporation of ESG considerations into the investment process; and
- Longer-term risks and opportunities: those themes Railpen believes will play out over the long-term timeframe during which members' pensions will be paid.

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

It is possible to have a positive influence by actively engaging with portfolio companies and, where appropriate, exercising voting rights. This activity helps Railpen, on the Trustee's behalf, to enhance long-term investment returns for beneficiaries. Further details on our approach to engagement and voting on issues, including social issues, can be found in our 2020 Stewardship Report (published April 2021).

**Industry approaches to the 'S' of ESG**

The majority of our response focuses on Railpen's approach to, and activities on, financially material social issues, as part of our responsible investment approach. However, we believe discussion, debate, and the sharing of thought leadership is vital to UK pension schemes and the industry that supports them. We therefore formally participate in several industry organisations and other forums, alongside ad hoc discussions with scheme and trustee representatives. We believe we are in a position to provide additional helpful insight here.

We welcome the government's decision to consider scheme approaches to material ESG issues beyond the "E" and emphasise the effectiveness of scheme stewardship in improving corporate behaviour. The focus on social issues is particularly timely in light of the ongoing impact of the Covid-19 pandemic on our economy and society.

We note the statement in the call for evidence that "many pension scheme trustees' policies in relation to social factors are high-level and unilluminating". We acknowledge that public-facing policies, such as schemes' Statement of Investment Principles (SIPs), may only rarely discuss specific social issues. However, our understanding is that many investors are undertaking stewardship on social issues from modern slavery to the workforce (diversity, wellbeing, labour relations) and the rights of indigenous communities, where these issues are deemed to be material to the portfolio or resonate with members. We recognise that many schemes choose to keep their SIPs, and other policies, high-level, to allow for flexibility and reduce the need for frequent updates and any accompanying employer consultations.

Once the full range of implementation statements and asset owners' Stewardship Code disclosures are published, we think the government will have a wider pool of evidence from which it can glean information on schemes' approaches to social issues – as well as environmental and governance concerns.

**Our response**

1. **Does your pension scheme, or do schemes you advise, have a policy on financially material social factors? In this policy, are social factors discussed separately to ESG factors in general?**

   ***And***

2. **Does your scheme, or do schemes you advise, have a) a stewardship policy and/or b) a voting policy that specify covering social factors?**

   Railpen's approach to Sustainable Ownership, on behalf of the Trustee, works within the parameters of several different policies and frameworks. Some of these are published online while others are for internal use and guidance only.

   Our starting point for deciding whether or how to consider or engage on a given E, S or G issue is the Trustee Investment Belief on the financial materiality of ESG issues, which corresponds to the following statement in the SIP[1]:

   *"The Trustee expects RPMI Railpen to:*

   - *Exercise rights attaching to investments and to undertake engagement activities in accordance with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code;*
   - *Select Fund Managers which have appropriate ESG policies and to monitor their compliance with those policies;*
   - *Evaluate all financially material considerations, including ESG factors (including, but not limited to, climate change) as part of the decision-making process around its stewardship activities."*

   We then use the Four Lenses approach and ascertain which issues are most material either to our portfolio as a whole (systematic risk) or to our major holdings (idiosyncratic risk)[2]. It can be challenging to 'separate out' specific systematic social risks as so many are interlinked: for instance, climate change and biodiversity have clear social dimensions, while remuneration quantum and approach are not only well-established governance issues but also – particularly on fair pay or broader workforce remuneration – social ones.

   We have other publicly available and internal-only policies and documents that flow from the Trustee's beliefs and investment objectives, and which further detail our approach to ESG issues, including financially material social issues. We note the most relevant below.

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[1] The full Statement of Investment Principles (SIP) can be found on our website at Microsoft Word - Draft SIP - June 2015.docx (rpmirailpen.co.uk) (last updated September 2020).
[2] Please also see our response to Question 3 for a discussion as to how we assess materiality, including in ascertaining our thematic engagement priorities.

**Published policies**

- **Global Voting Policy**. This is updated annually and outlines our expectations of companies across priority corporate governance and sustainability concerns. It also highlights how we will vote where our expectations are not met. Specific social issues mentioned include Covid-19 and treatment of the workforce, customers and suppliers (covering financial, physical and mental wellbeing concerns). We also explicitly refer to the UN Global Compact and encourage our portfolio companies to operate within its parameters.
- **Global Engagement Policy**. This is also updated annually and includes some case studies on social issues like diversity and workforce remuneration. For 2021 we will be including a summary of our priority engagement themes including "Worth of the Workforce" and "Responsible Technology" – both of which encompass significant social issues.

We send our Global Voting Policy to all our investee companies and our largest external managers and use it as an opportunity to refresh discussions as part of our annual engagement activity. We also publish our voting records – with a three-month delay – on our website, which includes how we have voted on social and other issues e.g. on shareholder resolutions and proposals on recruitment of employee directors or undertaking a racial equity audit.

**Internal policies**

We supplement our public policies with internal policies, which provide more detail and are designed to support and provide guidance for internal team members and other stakeholders. The most relevant for this Call for Evidence are outlined as follows.

- **Governance Zero-Weight Exclusions Policy.** We exclude companies from our investment universe where we think the ESG risk associated with being invested would be unmanageable. An exclusion decision for this Policy would be taken on the grounds of egregious governance or conduct issues and an unwillingness to engage or make meaningful improvement. We often exclude companies for their behaviour on, and governance around, social issues including bribery, corruption and modern slavery.
- **Cluster Munitions Exclusions Policy**. As with the Governance Zero Weight exclusions list, we exclude those companies involved in the manufacture of cluster bombs, incendiaries, mine-dispensers, anti-personnel devices and white phosphorous. This list is also reviewed annually and our Policy refers to the UK Convention on Cluster Munitions (November 2010).
- **'Voting Views' document**. This provides a framework for Investment Management and Sustainable Ownership team members to understand the Railpen view on detailed E, S and G issues and how it might impact our voting decisions. Social issues explicitly covered include: employee engagement, shareholder resolutions on modern slavery or human rights audits, fair pay practices during and beyond Covid-19, health and safety and workforce diversity and inclusion.

3. **On which social factors do your scheme's investment and stewardship policies focus? What was the rationale for deciding to focus on these particular social factors? Do you refer to any international standards, such as those relating to human rights or labour rights?**

*Please also see our answers to Questions 1 and 2.*

Our active ownership and ESG integration workstreams focus on managing and mitigating both systematic and idiosyncratic risk to our portfolio.

**Stock-specific social issues**

If an E, S or G issue is material to a major holding of ours then there is no issue out of scope for engagement, escalation or exclusion (where behaviour is egregious and ongoing and the company is unwilling to engage further).

For our major holdings, we engage and vote on stock-specific risks which could be anything from human capital management to engagement with workers, the management and approach to modern slavery in supply chains, cybersecurity, workforce fatalities or content governance and moderation. We engage to improve corporate behaviour and measure our engagement success against company-specific one-, three- and five-year objectives.

**Social thematic engagement and voting priorities**

The Sustainable Ownership team works with others across Railpen to determine which issues we prioritise for our thematic engagement work, which is often undertaken in collaboration with other investors and organisations. Our criteria for prioritisation include:

- Materiality of the issue to our portfolio (including sector and jurisdiction);
- Alignment with Trustee Investment Beliefs, or level of reputational risk to the Trustee;
- The potential importance to members; and
- Railpen's expertise and scope to effect positive change.

In early 2021, we used this materiality framework to agree that our priorities for engagement and voting across the next three years would be:

- <u>The Climate Transition</u>
  - Climate accounting and Paris-aligned accounts
  - Biodiversity and deforestation
- <u>Worth of the Workforce</u>
  - Treatment during Covid-19 and beyond
  - Workforce reporting
  - Modern slavery
- <u>Responsible Technology</u>
  - Content governance and moderation (human rights implications)
  - The governance of 'Big Tech'
- <u>Sustainable Financial Markets</u>

- The audit market
- Minority shareholder rights

The Railpen Sustainable Ownership team regularly engages with the Trustee and the Pension Committees[3] to ensure a 'live' understanding of Trustee and member perspectives on ESG themes. Therefore, while the broad priorities are mostly fixed for the next three years, the emphasis on the sub-themes is able to flex over time.

We look wherever possible to align our engagement activity and thematic research by reference to credible, and up to date, frameworks – though we will also look to push and develop these frameworks further where relevant. We currently refer to frameworks such as the *UN Global Compact*, our *2019 Cybersecurity Framework* with NEST, the Swedish Council of Ethics' *Tech Giants and human rights: Investor expectations* and the PLSA's *Worth of the Workforce: Stewardship Toolkit*.

**4. Which resources have you found useful when seeking to understand and evaluate social factors either for your scheme or a scheme you advise?**

Understanding a particular ESG issue, and the systematic or idiosyncratic risk it might pose, requires a significant level of research to help frame the issue and understand its implications from an investment perspective. Our research will usually involve a mix of exploring the relevant regulatory and legislative developments (across jurisdictions), sectoral analysis, company-specific analysis – including availability and quality of metrics – as well as available investor frameworks and collaborative investment initiatives to help us map the likely impact across either our portfolio or a specific holding and shape the activity we take in response.

**Discussion with internal and external investors (company-specific and general)**

We look to understand social factors both as they pertain to macro themes which influence our broader portfolio and as they relate to individual holdings. Railpen is privileged to have a dedicated in-house Sustainable Ownership team to undertake responsible investment activities on members' behalf. It works alongside the Investment Management team at every stage of the investment life-cycle, including co-engagement with key holdings. We find the portfolio managers and analysts a valuable source of insight and expertise.

As well as conversations with the Investment Management team, the Sustainable Ownership team discusses company-specific and thematic social (and other ESG) issues with peer schemes, external asset managers, academics and research providers. Doing so ensures we can learn from others as well as providing our own contribution to raising industry standards[4].

[3] These have been implemented by around a quarter of sponsoring employers – covering around 85% of the membership – to provide additional governance oversight and are a key forum for understanding the member perspective.

[4] Please see our 2020 Stewardship Report for the full list of our membership organisations and forums in which we participate (either through formal governance arrangements or more informal participation).

**Research and reports (general)**

There is a significant – and growing – amount of freely available guidance on broader and thematic social issues (as opposed to company-specific). The frameworks and reports we use most often are usually produced by academics, industry groups and collective investor initiatives.

On social issues generally, we find the Sustainability Accounting Standard Board (SASB) framework helpful in identifying material issues by sector and industry. In addition to SASB, we also highlight some issue-specific frameworks which we find helpful below.

Workforce issues (including diversity, fair pay, labour relations and workforce engagement)

- The Workforce Disclosure Initiative (WDI)
- Understanding the worth of the workforce – a stewardship toolkit for pension funds (PLSA)
- Human Capital Management: Why investors should care and what they should look for in corporate disclosure (International Corporate Governance Network (ICGN))
- Workforce-related Corporate Reporting – Where To Next? (Financial Reporting Council (FRC))
- Investing in the Workforce (International Labour Organisation (ILO))

Modern Slavery

- The Modern Slavery initiative (CCLA)
- 2020 Votes against Slavery Report (Rathbone Brothers)
- New joint report on modern slavery and financial services (Independent Anti-Slavery Commissioner)

We think there would be merit in either The Pensions Regulator (TPR) or one of the industry bodies, such as the Pensions and Lifetime Savings Association (PLSA) or the UK Sustainable Investment and Finance Association (UKSIF), pooling the available resources on social issues to help guide scheme trustees, and their advisers, through what is a rapidly evolving space. This would be particularly helpful for schemes without a dedicated in-house resource.

**Research and reports (company-specific)**

For major holdings, the Sustainable Ownership team will go back to source documentation such as 10-Ks or annual reports or use intelligence from engagements to inform our understanding of how a company is approaching social issues. This will often be supplemented by research from a variety of ESG data and proxy advice providers[5] and, where there are gaps in the issues covered, or where the information is out of date, we will engage with our advice and research providers to encourage them to incorporate these issues into future standard advice.

[5] Further details as to how we use these providers to inform our analysis and voting decisions can be found in our 2020 Stewardship Report.

We also regularly scan both national and local media, as well as credible blogs and academic articles, which can occasionally be helpful in providing additional insights. This is, however, mostly only a reliable source of information in jurisdictions where there is a relatively free press.

**Do you feel that you have sufficient understanding of how companies perform on social issues?**

Considering the research and resources available to Railpen on our major listed and unlisted holdings, we believe we do.

We note that the willingness of companies to discuss their approach to workforce engagement in particular– either in their written investor communications or in meetings – has increased since Covid-19 shone a spotlight on human capital practices. However, even in light of this development, we think the findings of the PLSA and High Pay Centre's 2019 research on workforce engagement and reporting[6] – that the general level of high quality disclosure on workforce issues is highly variable – remain relevant.

This is why, in 2021, Railpen is working with the Chartered Institute for Personnel and Development (CIPD), the PLSA and the High Pay Centre to review the state of workforce disclosures in the wake of the pandemic and provide recommendations to companies, investors and policymakers around how companies can provide material and investment-decision useful metrics.

In comparison to climate metrics, which are often concrete and well-defined, generally social metrics and data from companies are not as clear or consistent. Material social issues are also often less comprehensively addressed by many external research providers in their standard advice.

Any steps by government or industry to improve the consistency and quality of disclosure and metrics produced by listed and private companies on key 'S' issues like workforce, or to encourage more proxy advisers to incorporate a fuller assessment on material social issues into their standard advice, would be welcomed by responsible, long-term investors like Railpen.

**5. What approach do you, or the trustees you advise, take to managing the a) risks and b) opportunities associated with social factors? Why have you chosen this approach?**

***And***

**6. If this is delegated to asset managers, how do you ensure and monitor that they manage the risks and opportunities associated with social factors?**

*Please also see our response to Question 7.*

[6] *Hidden Talent 2: Has Workforce Reporting by the FTSE 100 Improved* (PLSA and High Pay Centre, 2019).

**Internally managed assets**

<u>Listed equities</u>

Over the last few years, Railpen has been internalising the management of assets, including much of the listed equity portfolio. There have been several reasons for doing so, including greater control of stewardship and voting activities and decisions. Where there are listed equity holdings in mandates or funds which are externally managed, Railpen seeks as far as possible to direct votes or influence the voting approach.

In evaluating social risks and opportunities, we use the same approach regarding ESG integration and active ownership as with any other financially material issue. This involves combining in-depth analysis with intelligent engagement, thoughtful voting and – where relevant – proactive participation in public policy debates to improve corporate behaviour on key issues. Figure 1 below illustrates the role of the Sustainable Ownership team across the life-cycle of an investment.

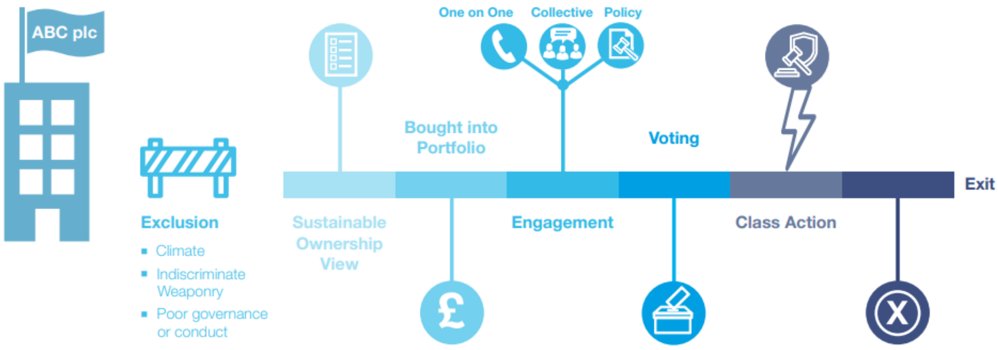


*Figure 1 Railpen ESG integration and active ownership activity across the investment life-cycle*

Our approach to and use of active ownership tactics and strategies in particular will depend on a number of criteria. For instance, we believe that direct engagement can be a powerful tool for effecting change but focus resources on those holdings that are most material to our portfolio i.e. where there is most potential value at risk and where direct engagement can have the greatest impact.

We engage collectively – for instance, as one of the founding participants of the Workforce Disclosure Initiative (WDI) – where:

- We believe we will achieve more impact as part of a bigger group;
- 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; and
- There is a well-defined process for escalation.

We also believe in robustly wielding our vote to align with our engagement objectives and in members' best interests. Our Global Voting Policy allows us to exercise our voting rights systematically, consistently and in a way that reflects our thematic and stock-specific engagement priorities. We also believe in individual accountability and where we have serious and ongoing concerns on a specific issue, we may vote against the individual Director we deem responsible.

Each year we update the voting policy to reflect developments in our thinking around priorities and to integrate intelligence gathered from our engagements. This helps shape how we vote in the forthcoming AGM season. For instance, in 2021 we have been voting against remuneration reports, policies and responsible directors where we do not feel the financial impact of Covid-19 has been fairly shared across all company stakeholders, including the remuneration of the wider workforce.

Real assets and infrastructure

As with our listed equities, our real assets and infrastructure investments teams approach ESG issues from a materiality perspective. Each potential investment opportunity is evaluated using a materiality map, which includes ESG risks. External managers are sometimes used, but our Long-term Income Fund (LTIF), which seeks investments that provide long-term and stable cash flows, tends to invest directly in projects.

The LTIF and Sustainable Ownership teams also produce an ESG Value Creation plan for opportunities, where they aim to achieve a positive impact beyond what is required from a risk evaluation perspective. For instance, our wind farms contribute to local community projects over their life, including local field restoration for a healthy pasture in the Avich & Kilchrenan community, the refurbishment of Dalavich village hall in Argyll, and funding for the Quay Zone community leisure centre in Girvan.

With real estate projects, Railpen will assess the financial fundamentals and ESG risks. Although not the driving factor, where there are two equally viable projects from the long-term income perspective, the project which carries the most significant positive impact will be chosen. This includes investment in, for instance, care and retirement homes, or accommodation for rough sleepers.

**Externally managed assets**

Where there are external listed equities managers, Railpen undertakes extensive due diligence throughout the manager selection process. The Sustainable Ownership and Investment Management teams work closely together to ensure that a potential fund manager's approach to stewardship and ESG integration is closely aligned with Railpen's, and the Trustee's, investment beliefs and objectives. Our questions include requests for outcomes and examples of impactful integration, engagement and voting on priority issues including social topics. We also look for evidence on our managers' approach to ESG issues *operationally* including on the policies around and uptake of, for instance, their flexible working and parental leave programmes[7][8].

Once the manager decision has been made, Railpen seeks as far as possible to exercise votes directly in pooled funds. For instance, we direct votes on our UK holdings in a major passive equity

[7] A detailed example of our due diligence approach in a recent regional equities mandate can be found on p31 of our 2020 Stewardship Report.

[8] We are also collaborating with some other pension schemes to develop a framework to support all asset owners in embedding diversity and inclusion policies into their manager recruitment, due diligence and monitoring processes.

vehicle. Railpen also looks to influence the voting policies of external managers through the following mechanisms:

- Using the annual publication of the global voting policy to kick-start a conversation;
- Incorporating discussion of voting practices into quarterly manager meetings, as well as regular discussions in-between; and
- Working to influence the broader policy and industry environment, by proactively feeding into the PLSA's annual Voting Guidelines and the Investment Association's Stewardship Reporting Working Group.
- Using the request for disclosure of 'most significant votes' for the Trustee's implementation statement to continue the conversation with our asset managers.

We will also be carefully reviewing our managers' Stewardship Code disclosures – we think that the new outcomes-focused approach by the FRC should help enable pension schemes to better differentiate between managers.

Our response to Question 7 provides some more detail on how the approach, strategies and tactics above have been used on social issues in 2020.

**The role of public policy**

Railpen has a long history of seeking to engage in public policy debates where we think that doing so will help support the market for responsible investment. We believe this is a fundamental part of our fiduciary duty and active ownership programme to help manage systematic risk: system-level issues require system-level solutions and the appropriate regulatory and policy framework. We provide several examples of the approach we have taken to doing so in our 2020 Stewardship Report.

However, we believe that the primary responsibility for producing a fair and flourishing society – for instance where citizens are protected by the rule of law, where they can benefit from a welfare state safety net, where the rights of indigenous communities are protected – belongs to the government. Pension schemes, including Railpen, will invest and engage to manage social risks and take advantage of social opportunities where doing so aligns with trustees' fiduciary duty and our long-term objectives and goals. We support the government in seeking to understand the barriers to doing so while also looking to national and local government to create broader policy ecosystems that support individuals and society.

7. **Have a) the trustees of the scheme or a scheme you advise undertaken stewardship with an investee company on a social factor in the past 5 years, whether directly or through an asset manager? b) If yes, please provide details including why you felt this was necessary, what was done and the impact of your intervention.**

We have – both directly and collectively and for several years. We provide a couple of examples of our work in the last year below. Please note that as two of the engagement case studies are ongoing and we intend to publicise this consultation response in the interests of transparency to members and other stakeholders, we have anonymised a couple of these examples. We would be happy to provide the names of the companies, if deemed helpful, on a confidential basis.

**Direct engagement in 2020**

The case studies below offer an indication of how we undertake direct engagement. One of the companies is a major direct holding, while another was held through an external manager – but given the extent of our concern, we worked with our external manager to arrange a meeting[9].

| Case Study | Direct Engagement: Company A |
|---|---|
| Issue | Company A is a technology company, held in Railpen's active strategy. Ahead of the May 2020 AGM, we identified concerns around the company's compensation report and the Board's approach to Covid-19. The company has repeatedly been criticised for unsafe working conditions, linked to the inadequate provision of PPE and lack of transparency around the number of employees who have contracted Covid-19. |
| Approach | Members of the Sustainable Ownership Team and the Investment Management team engaged with the company together to highlight our concerns and understand Company A's perspective. |
| Outcome and Next Steps | • Discussions confirmed that the multi-million dollar bonus reported for a long-standing Named Executive Officer primarily related to the accounting effects of an amendment to his previously awarded restricted stock units. Therefore, we felt comfortable supporting the compensation report in line with 97.5% of votes cast.<br>• It became evident that Company A's efforts to protect its workforce were evolving with multiple learning points identified. For example, company representatives noted that questions are sent to subsections of the workforce daily via the employee connection programme, with real-time responses reported to management. Despite this, we continued to feel that there was disparity between the views expressed by management and those 'on the ground'.<br>• We also felt that disclosure on the impact of Company A's efforts to protect its workforce, alongside the effectiveness of Board-level oversight, would provide better insight to shareholders and reinforce accountability for worker safety.<br>• We used our 2021 Voting Policy update – with its new lines on the importance of treating the workforce fairly both during Covid-19 and beyond – to prompt further dialogue with senior company executives in early 2021. Intelligence from this meeting will inform our vote in the 2021 AGM. |

[9] More details about our stewardship approach – and other case studies – can be found in our 2020 Stewardship Report.

| Case Study | Direct Engagement: Company B |
|---|---|
| Issue | Company B, a technology and transportation company, is held within our public markets portfolio through an externally managed passive equity portfolio. The company was linked to controversies related to its employment model and passenger safety, which was of concern to the Sustainable Ownership and Investment Management teams. |
| Approach | Although this is not a part of our in-house fundamental equities portfolio, the Sustainable Ownership team was sufficiently concerned to arrange a call with senior representatives from the company's ESG Strategy and Engagement team in May 2020. The topics outlined above were discussed, alongside broader issues regarding Company B's sustainability approach and attitude towards its workforce. |
| Outcome and Next Steps | The company outlined their increased efforts on the topics highlighted. We were pleased to hear that they were dedicating significant resources to workforce wellbeing and their Covid-19 response but noted that we would be monitoring this issue.<br><br>Additionally, this call provided us with further context on Company B's approach to passenger safety. While outstanding questions remain, the company has proved itself willing to engage on this topic, and the team remains vigilant regarding news of incidents. Passenger safety and fair treatment of the workforce continue to be top priorities.<br><br>We continue to see new stories surrounding Company B and it is likely that the team will engage further with the company on these issues in the future. |

**Collective engagement in 2020**

We welcome the opportunity to engage alongside a variety of other organisations, including peer pension schemes, asset managers or civil society groups – as long as the group's approach and objectives align with our own.

We think that the following case studies provide some insight into how we approach engagement on social issues.

| Case Study | Collective Engagement: Ryanair – Workforce Disclosure Initiative |
|---|---|
| Issue | The coronavirus pandemic has heightened investor attention on companies' treatment of their workforce and suppliers. However, there continues to be shortage of publicly available data on issues such as workforce stability, talent pipelines and supplier monitoring. |

| | |
|---|---|
| Approach | As members of the Workforce Disclosure Initiative (WDI), we work with other institutional investors to collect comparable data from companies through an annual survey.<br><br>Over the past two years we have participated in a collective engagement facilitated by the WDI, to encourage Ryanair to respond to this survey. Additionally, we have engaged directly with the company on topics including workforce relations, executive remuneration and auditor tenure.<br><br>In 2021, how a company treats and engages with its workforce is a priority thematic engagement issue for Railpen. Therefore, we held further conversations with Ryanair in early 2021 to coincide with our updated 2021 Voting Policy lines on workforce issues. |
| Outcome and Next Steps | We are pleased that dialogue on this issue has become increasingly open and have continued discussions with the company on this topic in 2021; as of March 2021 the company continues to consider its ability to make the required survey disclosures. |

| Case Study | 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, the global pandemic has contributed to shifts in the threat landscape and exacerbated the risk that cyber breaches pose. The majority of companies publish limited information on cybersecurity management, as they do not wish to disclose unnecessary details to potential adversaries. While we recognise the need for caution, shareholders benefit when companies can provide clear information on their oversight and mitigation of cybersecurity risks. |
| Initiative and role | Over the past year, we have worked alongside the Brunel Pension Pool, NEST, Border to Coast and the Universities Superannuation Scheme (USS) in a collective cybersecurity engagement led by Royal London Asset Management (RLAM).<br><br>During the first phase of our engagement, 25 companies were selected and contacted by the group due to their high risk exposure. Subsequent discussions highlighted previously underexplored third-party vulnerabilities and enabled the group to refine its current expectations on cybersecurity.<br><br>Railpen led one engagement with a high profile sportswear company and supported discussions with five companies that are smaller holdings within our portfolios. |
| Outcome | Companies were rated post-engagement according to the strength of their board oversight, risk management, disclosure and performance. We have since followed-up with companies that received a negative rating or did not respond to our initial letters. We have also initiated the second phase of our engagement, partly triggered by, and which has focused on, the global pandemic's |

| | |
|---|---|
| | unprecedented effect on corporate activity, alongside investigations into significant cyber-attacks on US companies. |
| Next Steps | We continue to engage, update company ratings and develop our understanding of this increasingly complex risk. Using this knowledge, we intend to develop a best practice framework and encourage the adoption of these practices.<br><br>In 2021, a key thematic engagement priority will be "Responsible Technology", given the impact of Covid-19 on remote working and the rapid expansion of digitisation across major sectors. This will broaden our focus beyond cybersecurity and privacy to also look at content moderation/governance and the governance of technology companies. |

**c) If no, then please provide details including what disincentives and barriers you faced in undertaking stewardship activities (engagement or voting) with an investee company?**

As a large UK pension scheme that manages a significant proportion of its assets in-house, we are in a privileged position compared to other pension schemes. However, we thought it would be worthwhile sharing some thoughts on barriers beyond the variable disclosure quality mentioned in our response to Question 4 (please note that we consider this a key barrier to effective and *impactful* stewardship on social issues).

**The need for high-quality support for trustees**

There is a significant body of evidence demonstrating the benefits of scale for scheme governance, leverage over investment costs and access to expertise, both in-house and external, and across the full range of investment issues, including responsible investment.

It is likely that the trend towards consolidation, for both Defined Benefit (DB) and Defined Contribution (DC) schemes, will continue to gather pace and, in the long-term, there will be a less fragmented market and a correspondingly higher average level of AUM and of internal and external expertise on responsible investment.

In the near- to medium-term, we make the following suggestions as to potential solutions:

- FCA regulation of investment consultants. Many smaller schemes will rely on their external consultants to provide insight and expertise. We are conscious that the FCA is currently considering how to design the regulatory framework for investment consultants in light of the CMA recommendations and believe that there would be merit in explicitly incorporating conduct on responsible investment (both integration and stewardship) into the framework design.
- Trustee Toolkit and other guidance from The Pensions Regulator (TPR)[10]. Responsible investment is a rapidly developing area and, although trustees are not

[10] We note the current scope and remit of the PLSA and IA Stewardship Steering Group and think that many of the initiatives proposed, such as template Requests for Proposals (RFPs) and Investment Management Agreements (IMAs), would be of use.

expected to become experts on the issue, there is still a certain level of understanding required in order to exercise the appropriate level of oversight. TPR's decision to review the level and scope of the Trustee Toolkit is welcome. We also support the proposal to include new modules on stewardship and climate change in the new Code of Practice and hope that TPR will continue to provide updated guidance and communications on different areas of responsible investment as the market evolves.

**Dilution of minority shareholder rights in the UK**

We see for ourselves the natural and unsurprising correlation between a company's willingness to engage meaningfully with an investor and what might be termed the "potential impact" of a given investor's holding. This impact is driven by factors such as the size of the holding (both in absolute monetary terms but perhaps more pertinently as a proportion of the company's market cap) and the extent to which a given vote decision might have consequences for company management.

Voting on a company resolution is the ultimate (public) demonstration of sanction or support in an investor's stewardship toolkit. We therefore remain disappointed that the government will permit dual-class share structures (DCSS) in the Premium-listed Segment of the London Stock Exchange. We recognise that many of the corporate governance proposals put forward by Railpen and other long-term investors, including the creation of a mandatory sunset clause on DCSS structures, have been taken forward by the government[11]. This is welcomed, but our overriding preference would have been not to allow DCSS at all for premium listings, for the reasons highlighted above.

**8. What opportunities are there for trustees to invest, directly or indirectly, in companies solving social issues in developing or emerging markets? How attractive are these investments?**

We are not a significant investor in developing or emerging markets. Much of our investment in companies on the social opportunities side takes place in the domestic market as this allows our private markets and real assets teams to exercise greater control and oversight.

We hope that the information we present here has been helpful. Please do not hesitate to get in touch with caroline.escott@rpmi.co.uk should you want any further information or have any questions. Otherwise, we look forward to continuing the discussion on this vital issue.

Yours sincerely,

**Chris Hannon**
Chair, Railways Pension Trustee Company Limited (RPTCL)

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[11] Further details of the Railpen position – including summaries of the available academic evidence which demonstrates that dual-class share structures can be detrimental to long-term corporate value, as well as some potential safeguards which could be introduced in the event DCSS is permitted – are available on our website.