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SUSTAINABILITY IN THE  
LONG-TERM INCOME FUND:  
OUR APPROACH

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RAILPEN



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# FOREWORD

Sustainability is a key tenet of the investment philosophy for Railpen and the Long-term Income Fund (LTIF).

At Railpen, we believe that to protect members' interests over the long term, our financial and ESG objectives need to be symbiotic. Our outcomes have proven that good sustainability practices directly correlate with strong investment performance.

LTIF's primary focus is acquiring stable, long-dated, income-generating assets. We target investments across real estate and infrastructure, prioritising defensive cash flow that is maintainable throughout any economic cycle. LTIF investments are intended to be resilient through turbulent times, so it is critical that they are sustainable by nature and that we continue to ensure we actively monitor and encourage ongoing improvements.

Our investments contribute to energy transition, affordable housing provision, healthcare access and waste management. We are good stewards of our investments and look to ensure good governance, best practices, and fair treatment of stakeholders. Railpen is a recognised institutional investor, and we use our scale and influence to effect change.

We will continue to evolve our approach to sustainability over time. We hope to take all stakeholders and partners along on this journey. The merits of sustainable investing are expected to persist in perpetuity, so this approach is appropriate for ourselves and like-minded investors.

In this document, we share our approach to sustainable investing, how we integrate it into our investment process and our aspirations for the future of sustainability in LTIF.



**Ted Jennings**  
LTIF Investment Director



**Cristiana Dochioiu**  
LTIF Investment Manager





# OUR APPROACH

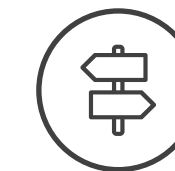
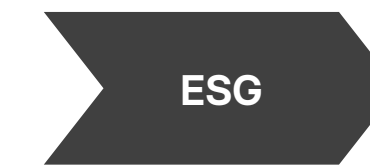
Railpen’s LTIF team generates stable, inflation-protected cash flows by investing primarily in infrastructure and real estate assets.

In line with Railpen and the Railways Pension Scheme (RPS) Trustee’s investment beliefs, we recognise the impact of ESG and climate change opportunities and risks on our investment performance and the quality of the world into which our members retire. As such, we actively incorporate ESG considerations into our investment process and portfolio management to increase our chances of delivering on Railpen’s purpose to **secure our members’ futures**.



### Values

We seek investment opportunities that align with the values of our clients and members.



### ESG

ESG risks and opportunities can shape investment outcomes and must be factored into the investment decision.



### Impact

Investors’ capital allocation influences the world into which our beneficiaries retire.





# INVESTMENT PROCESS

We analyse ESG issues at each stage of the investment process, from screening, through due diligence, closing, monitoring and eventual divestment.



Figure 1 - ESG Toolkits





## Pre-investment

The best opportunity to fully understand an investment's ESG implications and exert influence is at the time of initial investment. We carry out in-depth analysis to ensure that we are investing in alignment with the Trustee's investment beliefs. We leverage our scale, expertise and experience to influence with investment partners and advocate transparency, fairness and change through the implementation of sound processes and procedures.

For all potential investments, we identify whether there are any material risks which could reduce (increase) the likelihood and impact of ESG-induced financial loss (gain) and can therefore lead to the underperformance (outperformance) of the asset. The analysis helps ensure a high probability of achieving the fund's objective by taking an acceptable but not excessive level of ESG risk.

We identify ESG risks, their likelihood of generating financial loss and the potential impact on the performance of the asset.

We have developed a range of tools for pre-investment screening of direct and externally managed assets. The tools are designed to identify and address idiosyncratic ESG risks, particular to specific assets, and systematic ESG risks – those that can impact the entire asset ecosystem, such as climate change.

Our analysis is conducted with the Sustainable Ownership (SO) team, our principal internal adviser on ESG risks and recommendations. SO advises

on best practice ESG integration and risk, both are integral to decision-making around how we can improve our assets and market positioning.

Pre-investment analysis is summarised in an ESG Risk Report which is included in the final investment recommendation paper presented to the Investment Committee responsible for approval. Where material issues are identified, the Investment Committee may request further action to ensure these issues are appropriately investigated or require further actions following an investment.

## Post-investment

Post-investment ESG risk management is conducted by developing asset-specific KPIs, which are set and reviewed regularly to ensure they remain effective and are reported annually.

Sustainable Value Creation Plans for the direct assets we manage are developed. The Sustainable Value Creation Plans are designed for each asset type and include actions like monitoring initial KPIs and other additional activities which would improve the ESG credentials of the asset. These are reviewed on an annual basis and they enable us to better monitor and manage ESG risks and create value.

Where assets are externally managed, an external manager review framework has been developed which acts as a platform for us to review and monitor our general partners ESG risk assessments and allow us to challenge managers.

## Divestment

We have not yet had any sales, however, when the time comes we will (where appropriate) work together with the SO team to conduct sell-side ESG due diligence. We will do this to ensure that potential buyers have a good understanding of the risks and opportunities, so that good work can continue even after our eventual exit.





# OUR IMPACT

## Railpen is an investor for the long-term.

Railpen is an investor for the long-term. LTIF predominately invests in economically, socially and physically relevant assets that support climate action, promote energy efficiency, provide essential city infrastructure, encourage innovation and support well-being for communities.

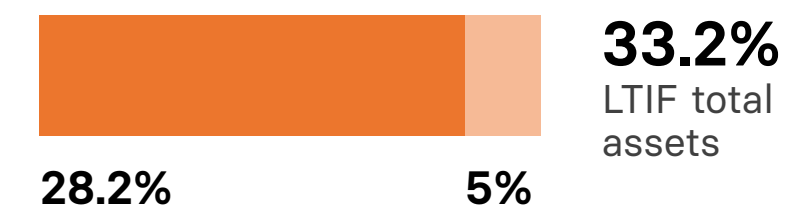
We consider the UN's Sustainable Development Goals (SDGs) framework a valuable tool in identifying the overall impact of our portfolio and our natural alignment to sustainable investing.

The SDGs are a collection of 17 global goals set up in 2015 by the United Nations General Assembly that seek to mobilise the international community to bring about an end to poverty and protect the planet. We believe that our existing investment portfolio is contributing most comprehensively to the following four SDGs:



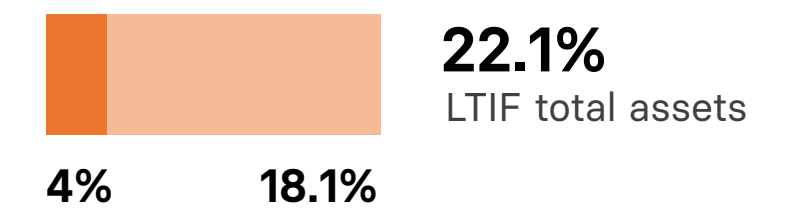
### Goal 7 - Affordable and Clean Energy

Affordable and Clean Energy is about ensuring access to affordable, reliable, sustainable and modern energy for all.



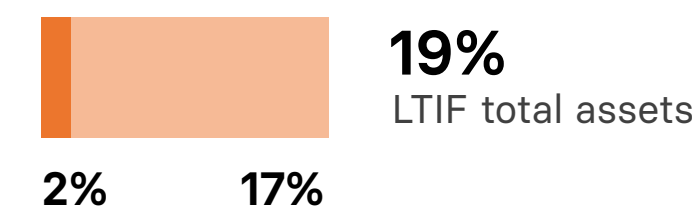
### Goal 11 - Sustainable Cities and Communities

Sustainable Cities and Communities addresses the need for inclusive, safe, resilient and sustainable cities and communities.



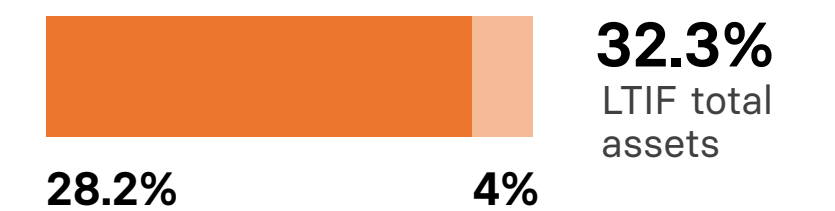
### Goal 9 - Industry, Innovation and Infrastructure

Industry, Innovation and Infrastructure addresses the importance of investment in infrastructure and innovation as crucial drivers of economic growth and development.



### Goal 13 - Climate Action

Climate Action addresses the need to take urgent action to combat climate change and its impacts.



Directly managed assets    Externally managed assets



# CASE STUDIES

## Case study 1: Carraig Gheal and Tralorg Wind Farms



- Located in Scotland
- Provide significant contribution to UK's decarbonisation agenda and clean energy supply
- Sites produce 190 gigawatt hours of electricity per year

### Environmental impact:

- Powering around 50,000 homes
- Avoided 2,090,000 kg of CO2 Emissions

### Social impact:

**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



Carraig Gheal Wind Farm



Tralorg Wind Farm

## Case study 2: Sleaford Biomass Renewable Plant



### UK | Equity co-investment with Greencoat

- Located in Lincolnshire
- Operational since 2014
- During 2021, Sleaford produced 275GWh of energy
- Provide significant contribution to UK's decarbonisation agenda

### Environmental impact:

- Powering around 94,902 homes
- Avoided 110,086 tonnes of CO2 Emissions
- Providing Heating at near zero cost to local council office, primary school and sport club
- Sleaford harvests rainwater, which is distributed throughout the production process. This also supports biodiversity in the area through the natural development of a swale, abundant with flowers and wildlife.

### Social impact:

- Committed £275,000 to Community Benefit funds circa 100 community projects since inception
- Supporting local jobs: 50 local jobs, 30 on-site and 20 through fuel logistics



Sleaford Biomass Renewable Farm



### Case study 3: Trocoll House



#### UK | Build-to-Rent investment subject to a lease with the London Borough of Barking and Dagenham

- Located in Barking
- Held since 2021, operational from 2024
- 49/198 affordable housing residential units
- Part of the local regeneration scheme of Barking Council
- 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 local policy priorities



Trocoll House

### Case study 4: Equity portfolio in PPP/PFI projects



#### UK | Externally managed

- Invested since 2016
- Partnered with Foresight
- Invested across waste, transport and social infrastructure projects



#### Environmental impact:

- Build and maintain energy efficient buildings with very good BREEAM
- Energy from waste projects across 2020:
  - Processed 867,000 tonnes of waste
  - Generated 584,000 MWh of electricity
  - Powered 201,000 homes in the UK

#### Social impact:

- Provided 500 'well-being bags' for NHS staff for their hard work throughout Covid pandemic
- Sponsor local girls' football team & boys rugby team in Glasgow
- In Sheffield, local community groups are planting more trees
- Providing social housing together with the Leeds City Council across 1,684 units



## OUR PARTNERSHIPS

LTIF is committed to supporting Railpen in meeting its obligations arising as a signatory to the UK Stewardship Code and to the United Nations-sponsored Principles for Responsible Investment (PRI). In addition, the United Nations Sustainable Development Goals (SDGs) also represent an essential reference for LTIF investment and portfolio activities.

Railpen has been a signatory to the PRI since 2010 and is committed to its six principles. LTIF is similarly committed and factors them into LTIF investment and portfolio management decisions.

Signatory of:



Signatory of:



Occupational  
Pensions  
Stewardship  
Council





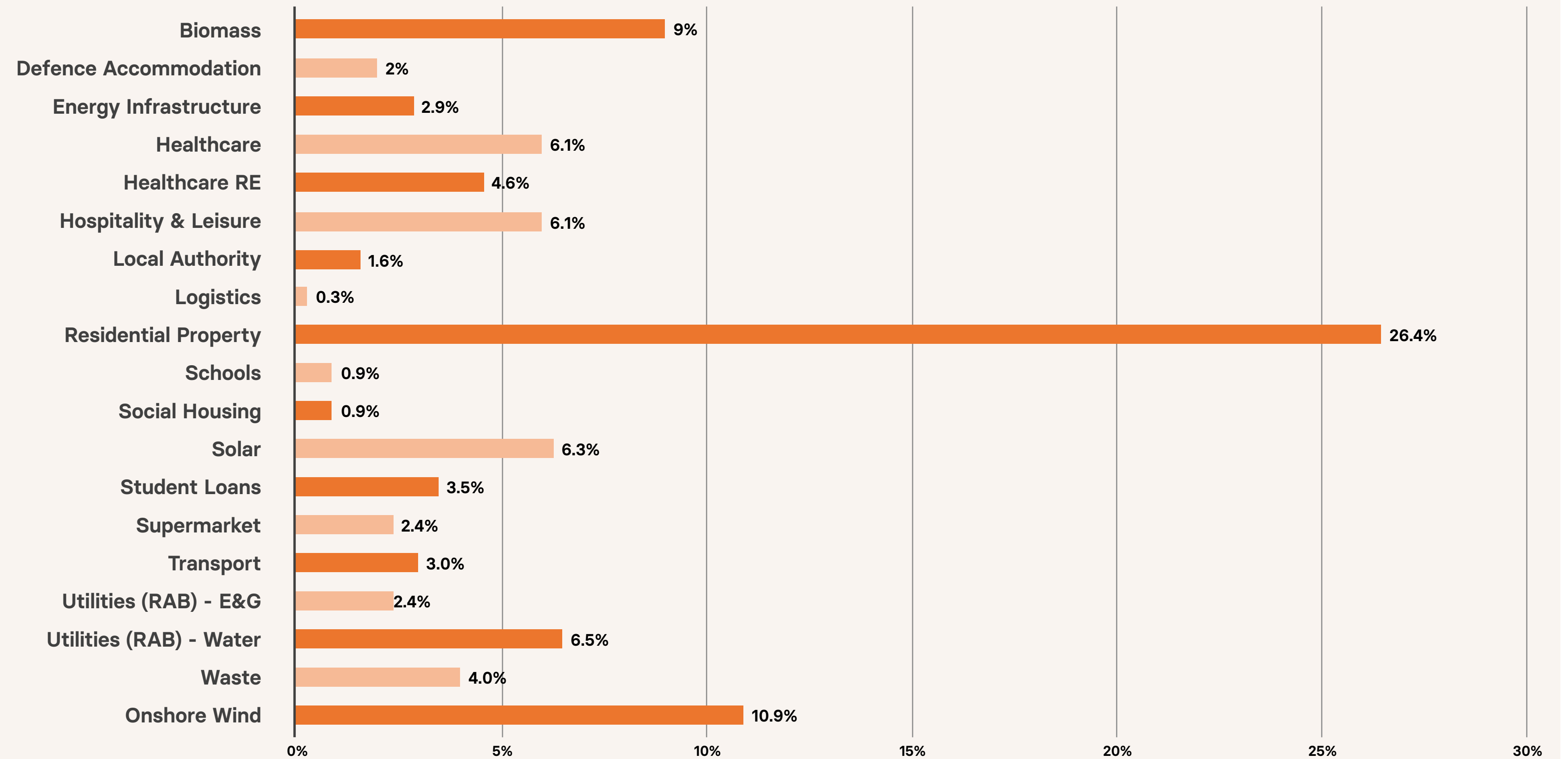
# THE NEXT 12 MONTHS

We invest in real estate and infrastructure assets within different investment structures and sectors. The diagram to the right illustrates the breakdown of our current exposure.

LTIF's future deployment will focus on increasing exposure in existing sectors which we believe will deliver robust and secure income. We will do this while continuing to identify new attractive industries which are complimentary of our current strategy whilst naturally supportive of our ESG beliefs and the UN Sustainable Development Goals.

Additionally, we will continue to deploy more capital within the infrastructure sector via our new Growth Infrastructure Portfolio ("GIP"). GIP will further support the UN Sustainable Development Goals and contribute to a net zero economy by investing across the UK's energy transition sector, emerging technologies and other growth areas.

### Long Term Income Fund exposures by sector

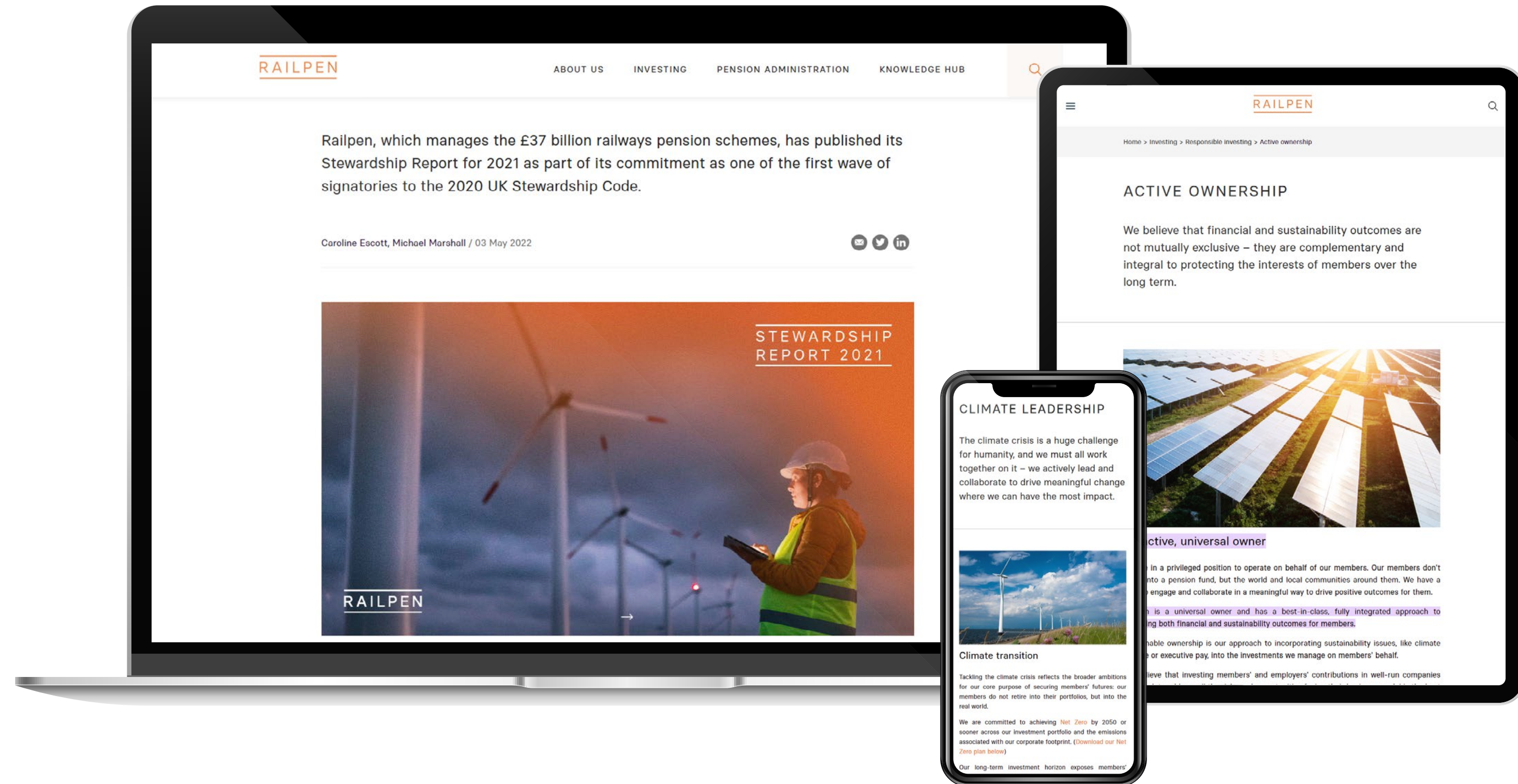




# FIND OUT MORE

You can find further information about Railpen's work across LTIF and Sustainable Ownership in the following places:

- [Real Assets webpage](#)
- [Active Ownership webpage](#). Includes links to our UK voting records, questions we have asked at company AGMs, our policy responses and much more.
- [Net Zero Plan](#). Our roadmap to achieving net zero greenhouse gas emissions by 2050 or sooner.
- [2021 Stewardship Report](#). A detailed look at our stewardship activities over 2021.
- [UN Sustainable Development Goals](#)





We hope this has helped you understand a little more about who we are and what we do, but we welcome questions or thoughts.

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