GLOBAL VOTING POLICY 2023

This document describes Railpen's perspectives on Sustainable Ownership issues and how they are reflected in our global voting positions for the 2023 AGM season

RAILPEN

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INTRODUCTION

About us

The Railways Pension Trustee Company Limited is the Trustee for the railways pension schemes, who are UK-based asset owners with a global, long-term perspective and approximately GBP **35 billion** in assets as at 31 October 2022. The Trustee's subsidiary, Railpen, manages the assets and employs an in-house Sustainable Ownership team that undertakes engagement and voting activities on behalf of the Trustee. This document outlines the voting positions that will be applied to the schemes' equity holdings, whether UK or international, for the 2023 AGM season.

We believe that thoughtful voting alongside constructive engagement with portfolio companies supports our objective of enhancing long-term investment returns for beneficiaries. Our global voting policy allows us to exercise our voting rights systematically, consistently, and in a way which is in beneficiaries' best interests.

Our global voting policy reflects Railpen's three ongoing corporate governance themes of **board composition and effectiveness**, **remuneration and alignment of incentives** and **shareholder rights, risk and disclosure** in a way that is accessible to our portfolio companies, our external managers, members and beneficiaries. 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[1][2].

Our 2023 priorities

As governments and companies around the world work to meet the ongoing consequences of the Covid-19 pandemic, as well as the impacts of the Russian invasion of Ukraine, we urge all our portfolio companies to support their workers, customers, suppliers and other stakeholders to meet the challenges in their daily lives. In 2023, we will continue our focus on workforce treatment through **intensifying our scrutiny of companies' approach to fair pay**, as well as their work to **support good mental health** during what continue to be difficult circumstances for all. We expect companies to look after their **entire workforce, including both directly- and indirectly-employed workers**. Where we consider companies to be failing to meet our expectations, our 2023 Voting Policy now outlines how we will implement a voting sanction.

In 2022, we set up the Investor Coalition for Equal Votes (ICEV) to stand up for equal voting rights for minority shareholders and ensure long-term investors can fulfil their roles as effective stewards. We recognise that there has been a decline in the market for Initial Public Offerings (IPOs) in the last 12 months, owing to the difficult economic and financial environment. We hope that company founders and advisers will recognise that the current environment means investors will continue to scrutinse their capital allocation decisions closely and that listing with single-class share structures will be taken as a positive statement of intent to work in partnership with the providers of capital. In 2023, for those companies that **maintain their unequal voting rights structure more than 7 years after IPO, we will escalate our voting sanction** to votes against individual Directors. This will take place alongside ongoing engagement with policymakers and pre-IPO companies, and their advisers, to push back against capital structures that we believe represent an attack on what is a fundamental precept of the capitalist model.

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[1] Further information on our engagement and voting approach can be found on our website.
[2] We strongly support the work of the International Corporate Governance Network (ICGN) including the Global Governance Principles which can be found here.

As the world looks to COP28 in 2023, we believe that good transition plans, which outline concrete steps that a company will take in order to decarbonise its business model and adapt to the economy-wide transition, are fundamental to helping investors and companies work together to achieve real world impact. Our 2023 Voting Policy gives **further details regarding what we think a good transition plan should look like and do, how we will assess the credibility and robustness of these plans, and how we will vote where a plan fails to meet our expectations**. This will include **a possible vote against the Chair of the Board** where we have severe concerns.

Our approach

We look to exercise our votes on those resolutions where we believe our vote will have the most impact. Where we identify poor practice on the issues highlighted here, we will consider a negative vote. We will also consider the use of abstentions, as we believe this provides a nuanced mechanism for expressing our views. Where we have serious and ongoing concerns on a specific issue, we may escalate through a vote against the individual Director we deem responsible, which could include the Chair of the Board. Where companies choose to deviate from accepted market practice, we will consider their explanation and apply professional judgement in recognition that local circumstances at a given company can call for nuance and pragmatism. Companies can expect us to take local market and sector norms into account where reasonable.

We also believe in using our full ownership rights to influence for positive corporate behaviour. In 2023, we will **continue to ask questions at portfolio company AGMs**[3] where we feel it is necessary to raise a concern with Board directors in an open forum, as well as boost awareness more generally. **This year, we will also start to consider the pre-declaration of our voting intentions** on specific resolutions where we believe that doing so will send an important signal to the company and the market. We will continue to notify companies, where they are priority holdings, of our voting intentions in advance.

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 the investment, we will consider selling our shares in the company. Any such decision will take into account how responsive the company is to minority shareholders' concerns, including its willingness to engage.

Across our externally-managed assets, we usually retain the ability to direct any voting rights and will continue to press to do so in future mandates. In the rare instance that we do not, we expect our external managers to consider our views and priority issues in their own voting policies and activities.

Railpen welcomes enquiries from our external managers and portfolio companies on any aspect of our voting and engagement approach via **sustainableownership@railpen.com**.

Caroline Escott, Senior Investment Manager – Sustainable Ownership, Railpen

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5 December 2022

[3] We publish all the questions we ask at company AGMs on the Railpen website. The full list can be found at: https://www.railpen.com/knowledge-hub/engagement/agm-statements/

Board composition and effectiveness

Railpen recognises that each company is unique, and needs to consider the governance arrangement that best suits its circumstances, including: whether it is high-growth or well-established; the jurisdiction(s) within which it operates and is incorporated; and its sector. We therefore seek to exercise our judgement when voting on the suitability of corporate governance arrangements at a given firm.

However, we believe that it is possible to hold portfolio companies to account on a broader 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.

Roles and responsibilities

Railpen does not believe that directors will be able to pursue the objective of increasing long-term shareholder value without developing and sustaining broader stakeholder relationships, to oversee the effective management of long-term risks and opportunities.

Given the important role a company's workforce plays in the creation of long-term value, this should include robust, effective and regularly reviewed mechanisms for engagement with its employees. We welcome clear disclosure of these mechanisms, how effective they are, and particularly how they have influenced board decision-making during the year.

Leadership and independence

Non-Executive Directors (NEDs), or Independent / Outside Directors as they are known in certain markets, are a vital safeguard of the interests of shareholders. NEDs should work cooperatively with their executive colleagues and demonstrate objective and independent judgement.

We recognise that different markets set different norms for the definition of independence. Nonetheless, we have certain minimum expectations and expect that factors that affect a director's independence, including their length of tenure, should be disclosed. Excessive tenure may also be a cause for investor concern, and boards must make a persuasive case in the annual report for a NED's continuing independence and continued presence on the board in such cases.

A Chair should be independent on appointment. We increasingly expect all our established portfolio companies to appoint a Senior Independent Non-Executive Director (SID), or Lead Director, in light of the important role they play in engaging with shareholders. This is particularly the case where the Chair is not independent.

The combination of the Chair and Chief Executive roles is actively discouraged. The elevation of a company's Chief Executive to Chair will generally be discouraged, unless it is part of a transitional period at the company, or if the company can present a compelling justification for the move. The retirement of an existing Chair/Chief Executive is often a good moment to separate the roles and we expect intelligent explanations where such an opportunity is not taken.

Composition and appointment

The proportion of independent directors on the board should be in line with local best practice. However, at larger companies we generally expect that one-half of the board at least should be comprised of fully independent, non-executive directors – not including the Chair. At smaller companies with smaller boards, we look for a minimum of at least three such directors, and welcome an aspiration for more.

In markets where a three-committee structure is local best practice, audit, nomination and remuneration committees should be established. The board should establish a majority independent nomination committee. The audit and remuneration committees should be fully independent. Members of all the committees must be identified in the annual report.

Full biographical details, including other directorships, should be disclosed for candidates for the board; this should include their prior education and training, professional qualifications and work experience including any assignments in a relevant sector, functional specialism or region given the company's operations and strategic priorities. This should include their awareness and understanding of the long-term implications of climate risks and opportunities for the business.

Detailed information should be provided on the recruitment process, and as evidence of consideration for board effectiveness and succession planning, an explanation of how the nominated candidates complement the existing board of directors.

All directors should be able to allocate sufficient time to the company to discharge their duties alongside their other commitments. Railpen will vote against the election or re-election of over-committed directors. Railpen will also vote against directors with poor attendance records where no satisfactory explanation is provided. We expect companies to disclose records of individual attendance at meetings.

When analysing a contested election of directors, Railpen will generally focus on two central questions: whether the dissidents have proved that change is warranted, and if yes, whether the dissident board nominees seem likely to drive change to maximize long-term value.

<u>Workforce voice and engagement</u>

Railpen believes 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. 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.

In 2023, Railpen will continue to work with others to clarify what a meaningful approach to workforce directors looks like in the US and UK markets, building on its investor expectations document[4]. This includes: under which circumstances this approach works best; views on independence and directors' fiduciary duty; and what other steps need to be taken to maximise the positive impact of workforce directors.

<u>Diversity</u>

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'. The nominations committee, or the board where no such committee exists, is encouraged to widen the pool

[4] To be launched in Q1 2023.

of talent taking into account aspects such as the age, gender, and ethnicity of candidates as well as their educational, professional and geographical experience.

Where a company provides inadequate disclosure on diversity, including omission of targets to be met, and/or diversity in all aspects has not been sufficiently addressed, Railpen will withhold support on the re-election of the Chair of the Nomination Committee, the Chair of the board or other directors standing for election.

Our expectations on gender diversity apply equally to all companies, regardless of market cap. While we have previously moved to more consistent gender diversity board thresholds for markets with established governance practices, we note the recent regulatory developments in the UK market for company boards, with new FCA rules for companies on gender and ethnic diversity at board level coming in from 2023 . We therefore expect to incorporate these measures in our voting policies in the future, after monitoring levels of company compliance.

In the UK and US, Railpen may also vote 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. As reporting on ethnic diversity evolves, we will look to extend this voting sanction to all markets with established governance practices.

Where diversity levels do not meet our expectations, we will continue to engage with companies to encourage the disclosure of specific targets, actions undertaken to achieve those targets and efforts to develop the pipeline of diverse talent across the broader organisation. We also seek to highlight the importance of the measurement and disclosure of clear and consistent diversity data to investors, and the need for measurable progress.

Corporate culture and purpose

Setting the right “Tone from the Top” is a critical leadership skill in leading and growing successful organisations.[5] The Board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values.

Where there is evidence of a director having displayed poor conduct or judgement, then Railpen may vote against their re-election.

Railpen expects its portfolio companies to operate within the parameters of widely-accepted business practices, such as the Ten Principles of the UN Global Compact[6] (UNGC.)

Where a company has undergone a severe controversy, which need not be limited to the areas covered by the UNGC, and the company has not shown sufficient responsiveness to shareholder concerns, Railpen may choose to vote against the re-election of the relevant committee chair, or other directors, depending on the nature of the issue.

Workforce treatment

Railpen believes that how well a company ensures its workforce is engaged, motivated and supported offers an important insight into its corporate culture, as well as being a vital ingredient for sustainable financial performance. We expect boards to be able to communicate the importance of the workforce in the context of the company’s business model and strategy, as well as how they engage with their employees – including details of activities undertaken and any material outcomes.

[5] https://www.ibe.org.uk/userimages/pwc_tone_from_the_top_2013.pdf
[6] https://www.unglobalcompact.org/what-is-gc/mission/principles

We also encourage companies to ensure fair treatment of their indirectly employed workers (this includes those who are employed through agencies or other third parties, self-employed, casual and seasonal workers) including undertaking the necessary due diligence of any third parties to verify that this is the case.

We believe that a thoughtful approach to diversity and inclusion is important for value creation beyond the boardroom. We expect our portfolio companies to take proactive measures to recruit and retain diverse talent, and to provide an inclusive culture that supports individuals to develop and excel in their roles.

Labour rights and freedom of association

Freedom of association is a fundamental human right[7] and Railpen believes that the right for workers to form and join organisations of their own choosing is key to ensuring a company operates in the interest of all its stakeholders, and is therefore well-positioned for long-term financial success. Railpen will continue to raise our concerns with portfolio companies, where we believe that they have not respected their employees' right to form and join a union, and to bargain collectively, as enshrined by the International Labour Organisation's Conventions.

Where we have concerns that employee relationships are being neglected, where the right to freedom of association appears to be curtailed or where disclosure on workforce treatment, diversity and labour rights is deemed inadequate, Railpen may choose to vote against the adoption of the Report and Accounts or the director we deem responsible.

Mental health

We expect portfolio companies to focus not just on the physical health and wellbeing of their workers, but on their mental wellbeing as well, and to disclose their approach and activities in this regard. Despite the clear materiality of mental health to a company's ability to attract and retain talent, our 2022 research with the CIPD and PLSA found that only 13% of annual reports of the UK's largest companies discussed mental wellbeing in relation to health and safety or risk assessment.

From 2023, we will signal our expectation of higher quality disclosures by voting against the annual report and accounts of the UK FTSE 100[8]. We will also continue to engage with our portfolio companies in other jurisdictions on disclosures around and activities on mental health, with the expectation that we will apply a voting sanction in future years where there has been insufficient progress.

Human rights and modern slavery

Railpen encourages portfolio companies to proactively undertake human rights due diligence across their operations in line with emerging regulation. In the UK market, Railpen expects portfolio companies to fulfil annual reporting requirements under Section 54 of the 2015 Modern Slavery Act. This year, where FTSE 350 companies fail to address the legal minimum requirements of the Act, we will vote against the approval of the annual report and accounts[9].

This year, we will also be strengthening our engagement with companies we identify as highly exposed to the risk of modern slavery, or where there have been confirmed incidents of modern slavery in the supply chain. Where companies we engage with do not demonstrate adequate risk management and a willingness to strengthen their approach, we will in future be likely to consider a vote against the Director we deem responsible for oversight failures.

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[7] As proclaimed in the Universal Declaration of Human Rights.
[8] As indicated by companies in the lowest tier of the CCLA *Corporate Mental Health Benchmark*.
[9] In alignment with, and as members of, the Rathbone Investment Management's *Votes Against Slavery* initiative.

We expect our portfolio companies to engage meaningfully with indigenous communities, and to respect the outcomes of consultation in their business activities. If a company does not adopt sufficient measures to prevent, mitigate or remediate negative human rights impacts within its operations, Railpen will consider voting against the Director deemed to be responsible for oversight failures.

Remuneration and alignment of incentives

Executive remuneration

Railpen expects a company to operate an independent and effective remuneration committee, which exercises its discretion downwards as well as upwards. We believe that remuneration committees should abide by the following principles when thinking through, devising and implementing their remuneration policies[10].

- Pay should be aligned to long-term strategy and the desired corporate culture throughout the organisation. For those companies that are part of our Net Zero engagement plan, we will focus on alignment of pay to climate metrics, targets and performance.
- Remuneration committees should use the discretion afforded them by shareholders to ensure that awards properly reflect business performance
- Remuneration committees should expect executive management to make a material long-term investment in shares of the businesses they manage
- Pay schemes should be clear, understandable for both investors and executives, and ensure that executive rewards reflect returns to long-term shareholders
- Companies and shareholders should have appropriately regular discussions on strategy and long-term performance

A company should work within its remuneration policy, and only seek approval to go outside the policy in genuinely exceptional circumstances.

Remuneration practices which are likely to attract support include:

- Reasonable quantum when compared to peers, with any increase in the level of certainty of reward accompanied by a material reduction in the size of awards
- Annual pay increases and pension benefits are in line with those awarded to the rest of the workforce
- Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, including material ESG factors, and which are as objective and outcomes-focused as possible
- Details of the performance targets met during the year, and proposed for the forthcoming year are disclosed to shareholders
- Post-employment shareholding requirements are in line with the UK Investment Association's Principles of Remuneration.

Railpen expects long-term incentive plan (LTIP) arrangements to be subject to shareholder approval when there is a new plan and where there is a material change to an existing scheme.

Performance metrics should be relevant and clearly aligned with business strategy, objectives and key performance indicators (KPIs) which link to long-term value creation. Railpen supports the inclusion of relevant non-financial performance criteria and at the appropriate level, including on material environmental, social and governance issues, in short- and long-term incentives.

[10] These align with the Pensions and Lifetime Savings Association's "Remuneration principles for building and reinforcing long-term business success", created in conjunction with Railpen, Hermes EOS, BT Pension Scheme and USS Investment Management.

Retention payments will attract significant scrutiny, and are unlikely to be supported. Excessive pay may be seen as motivating for the executive, but it risks demotivating the broader workforce. When so much value created is intangible, decreasing employee engagement is not in the interest of either management or shareholders.

Non-standard approaches may be supported, taking into account the situation of the company and the explanation provided. Restricted share schemes will be reviewed on a case-by-case basis, provided that an appropriate discount is applied. We believe that there is merit in terms of greater alignment with shareholder interests where shareholding guidelines are strengthened.

Change of control, good leaver and malus/clawback provisions should be in line with good practice in the local market. Malus and clawback provisions should not be restricted solely to material misstatements of the financial statements.

Where a company provides inadequate disclosure on remuneration, or adopts remuneration policies and practices that are not aligned with shareholder interests, Railpen will withhold support for the remuneration policy or report, other remuneration-related resolutions as appropriate and/or the re-election of Remuneration Committee members.

Fair pay

Fair pay is a key element in ensuring a motivated and engaged workforce. Railpen continues to expect Boards to balance the need to appropriately compensate leaders who successfully and safely steer companies through recent and ongoing economic challenges with an awareness of the experiences of the wider workforce at this time. We also expect firms to disclose to shareholders and others the pay distribution and scales across their wider workforce, both directly- and indirectly-employed.

We will look favourably upon company approaches to remuneration which seek to support those workers on lower incomes and/or who are most likely to be impacted by increased cost of living. This includes payment of a local "living wage" i.e. the pay which is required for all workers and their families to meet their living costs and we encourage companies to consider Living Wage accreditation, where relevant. It remains unlikely that we will support executive remuneration packages – including the structure of LTIPs and any awards under them – that are not aligned with the approach taken to employee remuneration more broadly.

Where there is a significant gender pay gap we would expect to see clear disclosures and rationales in addition to a robust and detailed plan for closing this gap. In the UK market, we expect to see the most forward-looking companies continuing to disclose their gender pay gap, and to take steps to measure and disclose their ethnicity pay gap, even in the wake of recent changes to government regulation on disclosure.

Shareholder rights, risk oversight and disclosure

Minority shareholder rights

Differential voting rights dilute the ability of minority shareholders, like Railpen, to effectively hold companies to account. We believe that long-term corporate success requires the shareholder voting rights to be directly linked to the shareholder's economic stake. This is why we set up the Investor Coalition for Equal Votes (ICEV) in 2022[11].

[11] This is a collaborative engagement initiative, led by Railpen and the Council of Institutional Investors (CII) and with over $1.3 trillion in US and UK pension fund assets under management. Its mission is to promote the adoption of capital structures which ensure equal voting rights, on a 'one-share, one-vote' basis.

We will support resolutions that seek to maintain, or convert to, a one-share, one-vote capital structure. We will vote against requests for the creation or continuation of dual-class capital structures, or the creation of new or additional super voting shares, without the inclusion of a time-based sunset provision that is 7 years or less.

From 2023, we will consider a vote against all members of the Governance Committee (or other committee we deem responsible) at companies that have a dual-class share structure without a sunset clause of seven years or less from the date of the IPO. Where a company's dual-class share structure has a sunset clause of more than 20 years from the date of the IPO, we will consider an additional vote against the Chair of the Board.

Bundling of matters for consideration that should be put to separate shareholder votes is strongly discouraged.

Railpen will normally support share repurchases provided local market regulations and relevant shareholder guidance are met.

Related-party transactions will be assessed on a case-by-case basis. Concerns may arise if the transaction does not seem to be subject to proper oversight, is not undertaken on fully commercial terms in the normal course of business, or the company has not clearly explained how the transaction is in the interests of the company and all shareholders.

Companies should have clear dividend policies that set out the circumstances for distributing dividends and returning capital to shareholders.

Railpen will vote case-by-case on mergers and acquisitions, taking into account the merits of the proposed transaction.

Railpen is not supportive of 'virtual-only' Annual General Meetings (AGMs). AGMs provide an important mechanism for the Board to be publicly accountable to their shareholders. Removing the in-person element of the meeting impairs the ability of investors to hold Boards to account. Where ongoing Covid-19 restrictions limit the scope for in-person meetings, technology should seek to replicate as far as possible the in-person experience, including the ability for any and all shareholders to ask questions and to expect a full and appropriate response. In instances where companies are seeking to provide for electronic-only meetings in a proposed change to their articles of incorporation, we expect companies to commit to returning to hybrid or physical meetings in normal circumstances.

Shareholder resolutions

Shareholder resolutions can encompass a wide range of issues and be requisitioned by parties with varying objectives. Railpen will consider supporting proposals that contribute to the long-term sustainable success of the company.

Where there is a resolution relating to environmental or social concerns, the item will be addressed on a case-by-case basis taking into account the company's own practices – both in isolation as well as in comparison to peers in its sector or jurisdiction – as well as the specific requirements of the resolution and intelligence from our engagements. Railpen typically votes for shareholder proposals requesting greater disclosure, particularly on ESG issues that we deem material to a company.

Risk oversight and internal controls

The board should adopt a comprehensive approach to the oversight of risk, which includes material financial, strategic, operational, environmental, social and reputational risks.

Where a risk has materialised, the company should set out how it has responded and what efforts have been taken to mitigate the risk going forward in the annual report.

Inadequate reporting on environmental, social and reputational risks may warrant a vote against the annual report and accounts, the Director we deem responsible or a vote in support of a relevant shareholder resolution.

Cybersecurity

We recognise the substantial and growing cybersecurity risk faced by companies across our portfolio. We encourage companies to explicitly disclose the governance and oversight structures in place to identify and manage these risks, as well as provide timely reporting of any breaches and the measures taken in response.

We continue to engage with at-risk companies across our portfolio, both directly and as part of the UK Cybersecurity Coalition[12]. Where we do not deem cybersecurity risks, or any breach response, to be sufficiently well managed, we will consider a vote against the Chair of the Audit Committee, or other Committee we deem responsible. We may also consider voting against the Report and Accounts where we deem disclosure on cybersecurity risk to be particularly poor[13].

Reporting and audit

A high-quality audit is vital for ensuring shareholders are able to obtain a fair and true assessment of a company's financial health and sustainability. Railpen will vote against the re-appointment of the auditors if the tenure of the audit firm is greater than fifteen years. We will typically vote against the re-appointment of the Audit Committee Chair if the external audit firm tenure is greater than thirty years.

The non-audit fees paid to the company's statutory audit firm should not exceed good local market practice, in the absence of exceptional circumstances which must be clearly explained.

We are concerned by fee reductions for the audit, particularly when they seem to be driven by cost-cutting endeavours by companies (this may be particularly visible after a change of auditor). Such reductions raise issues about potential reductions in audit quality. We will carefully scrutinise instances where there has been a significant reduction in audit fees, including in the wake of a tender process. Unless there is a clear rationale for the fee reduction, the appointment and remuneration resolutions are unlikely to receive our support.

Where a company provides inadequate disclosure on audit, or adopts policies and practices that are not aligned with shareholders' interests as outlined above, Railpen will consider withholding support for the reappointment and setting of fees of the external auditors and/or the re-election of Audit Committee members.

The Climate Transition and Biodiversity

Climate change is a key strategic theme affecting all our portfolio companies. Railpen recognises the impact of climate change on our long-term investments and on the quality of the world our beneficiaries retire into. 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. Where there is insufficient evidence of a credible response to climate change, leading

[12] For more information on the Cybersecurity coalition, please see p.51 of Railpen's 2021 Stewardship Report.
[13] Our joint Investor Expectations on Cybersecurity document, created in collaboration with Royal London Asset Managers and other investors, can be found here.

to concerns regarding the quality of oversight, then Railpen will vote against the re-election of the Chair of the Board, and/or the Chair of any appropriate committees.

Climate disclosures

Railpen expects its portfolio companies – particularly those in highly carbon-intensive sectors – to appropriately incorporate material information about climate-related issues into their overall disclosures, both financial and non-financial, in a clear and consistent manner. These include but are not limited to disclosures on: climate ambitions and targets; governance, including climate oversight; emissions data and performance; decarbonisation and capital allocation strategy; and climate accounting and audit.

We also expect our portfolio companies to disclose their exposure to physical and transition risks of climate change, and explain the material impact on the company's business model and operations. Railpen is a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), and we encourage all our portfolio companies to provide enhanced corporate disclosure in line with this framework. We also encourage companies to comply with the ISSB standards for climate disclosure and best practice in transition planning as per the UK Transition Plan Taskforce (TPT) guidance[14].

Railpen views these climate disclosures as critical to decarbonisation, the climate transition and our own Net Zero Plan and where we deem that companies' disclosures fail to meet our expectations, we may vote against the Chair, the director we deem responsible or the Report and Accounts.

Railpen will apply a proprietary milestone-based approach to evaluating a company's progress on climate issues including the quality, depth and breadth of climate transition planning[15]. This approach will provide a structured foundation of analysis and assessment of a portfolio company's climate risk and net zero alignment status. Building on this foundation, we will consider on a case-by-case basis whether to support a climate resolution.

Climate resolutions and transition plans

Railpen is supportive of industry and policymaker momentum towards offering further opportunities for shareholders to explicitly express support for, or sanction of, corporate behaviour on climate change issues. This includes climate transition planning, which focuses on concrete plans to decarbonise a company's business model and help it adapt to the economy-wide transition. We think that good transition plans, and the meaningful engagement between companies and investors that these plans help drive, will help turn net zero pledges into real action. However, Railpen will exercise caution when endorsing plans through our vote, and will vote in line with our assessment as to whether the plan meets our minimum quality standards for net zero alignment.

We believe that a good transition plan should: set out a company's decisions on decarbonisation and adaptation in a comparable way, with clear quantification of interim targets and milestones; focus on material actions, activities and accountability mechanisms; account for biodiversity loss, natural capital impact and social impact as key externalities; clearly link targets, financial planning and capital allocation; and, where offsets are used, adhere to best practice principles.

Railpen will assess the credibility of company transition plans using our proprietary framework and the UK Transition Plan Taskforce (TPT) best practice guidance. Where we do not consider a transition plan to be sufficiently robust and credible, or where it lacks adequate links between targets, implementation and financial planning, we will consider voting against the Chair of the Committee we deem to have oversight (this could include Governance and/or Sustainability Committees). Where we have severe concerns about

[14] The UK's Transition Plan Taskforce (TPT) was launched by HM Treasury in April 2022 to "develop the gold standard for private sector climate transition plans in the UK". Railpen contributes to this work, including through our role in supporting drafting of TPT's implementation guidance.
[15] For further details of our CRIANZA assessment framework, please see pp 48-49 of our 2021 TCFD Report.

the credibility of a transition plan, including where it unduly prioritises the use of offsets over real world decarbonisation or does not sufficiently protect against the risk of biodiversity loss, we may additionally consider voting against the Chair of the Board.

We will support resolutions that seek to maintain and enhance links between climate targets and financial planning.

Biodiversity

Although we recognise the difficulties for companies as well as investors in identifying and accessing relevant biodiversity data, we urge portfolio companies to consider how they can better appraise and account for nature-related risk and redirect capital allocation decisions towards nature-positive outcomes. We would also encourage companies in at-risk sectors to engage with the Taskforce on Nature-related Financial Disclosures (TNFD)[16], which is actively considering how to enable companies to integrate nature into decision-making.

As well as including biodiversity and natural capital impacts in our assessment of company's climate transition plans, we will consider voting in support of resolutions which seek to encourage companies to address drivers of biodiversity loss, including deforestation, packaging and pollution, water usage and pesticides.

[16] Railpen became a member of the TNFD Forum in 2022.