STEWARDSHIP REPORT 2023

RAILPEN

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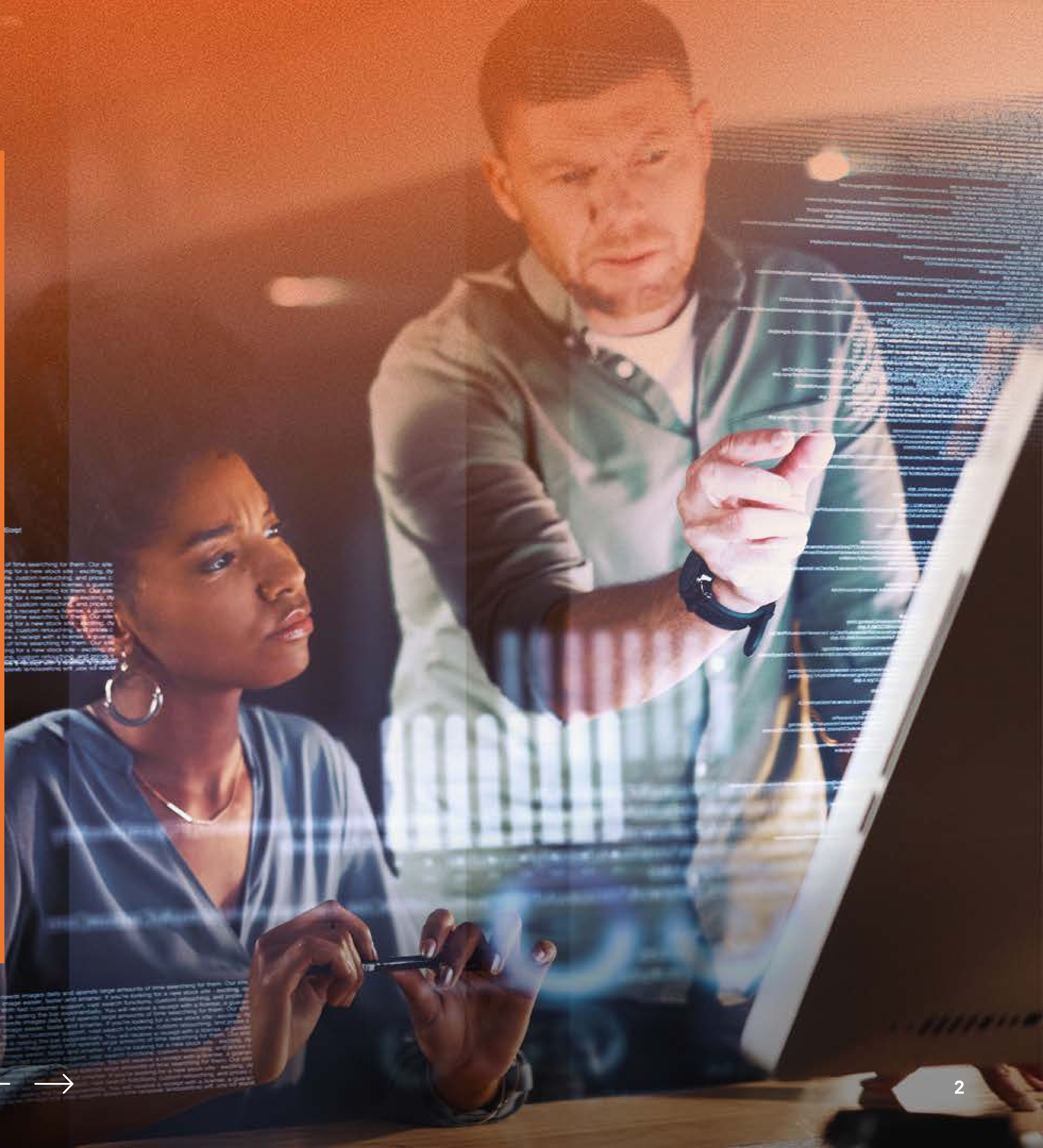


FOREWORD

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

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

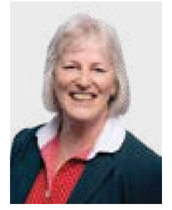
The Trustee therefore fully supports the 2020 UK Stewardship Code – and similar initiatives around the world. We were one of the first signatories to the original Code and, having been in the first wave of signatories, were delighted to retain our signatory status to the updated Code last year. We believe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

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

In 2023 we deepened our implementation of our shared Trustee and Railpen Investment Beliefs[1]. These fundamentally guide and influence everything the Trustee and Railpen do, including the sustainable ownership activities. The updated Beliefs were an important driver of our work last year to implement our net zero roadmap, deepen our focus on system-wide and thematic risk, and further consider opportunities for sustainable capital allocation.

Although we recognise there is much more to do, we were pleased to be recognised in 2023 both for our sustainable ownership and climate work specifically, as well as for the wider Railpen team more broadly. We won the Professional Pensions UK Pension Awards for DB Investment Innovation of the Year and Factor Investing Manager of the Year, the Investor Forum Simon Fraser Award for Stewardship, and the IPE Europe Awards for Pension Team of the Year and Commitment to Diversity.

In 2024, we'll see more than half the global population going to the polls and governments around the world continuing their search for ways to boost economic growth. In some jurisdictions, this has led to an unhealthy policy debate that pits essential corporate governance standards – vital for effective stewardship – against thriving economies. Such a debate fails to recognise the extent to which shareholder protections and robust corporate governance lead to more sustainable value creation for companies and investors. We urge companies to resist the temptation to 'race to the bottom' on governance standards. As long-term shareholders working in partnership with our portfolio companies, we will continue to reflect our support for robust corporate governance through the use of all the stewardship tools at our disposal.



Christine Kernoghan
Chair of Trustee

John Chilman
Chief Executive, Railpen

[1] *Please see case study 2 in our 2021 Stewardship Report for further details regarding the updated Investment Beliefs and their relevance for our sustainable ownership work. Our shared Trustee and Railpen Investment Beliefs can also be found online at: Railpen - Investment Beliefs.*

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

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

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

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

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

How we have made this report accessible to members

We are conscious that this is a long report – although we have made a conscious effort to reduce the length (compared to our previous reports). While we focus primarily on activities undertaken in 2023, to ensure that we remain as transparent as possible and to aid comprehension, we have also included sections from previous reports where little change has taken place over the last year. This will provide useful context and ensure members can read the report as a standalone document.

We also recognise that many of the terms used in this document will be unfamiliar to our members. We have therefore provided a glossary of key terms, which can be found on pages 79-80. Words that are included in the glossary are highlighted throughout this report.

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

As with last year's report, we will be condensing the key findings of this report into a short member-focused Sustainable Ownership Review, which we will publish later in 2024, and are aiming to publish a video summary in the future too.

We want to hear from you

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

OUR PHILOSOPHY AND APPROACH

About the Railways Pension Trustee Company Limited (The Trustee)

The Trustee is responsible for managing four railways pension schemes:

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

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

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

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

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

The role of stewardship in achieving our purpose

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

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

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

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

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

Our purpose and the strong sense of our duty to members underpins our broader culture, values and behaviours. In 2023, we updated our corporate values to the following:

ALIGNMENT

Challenge the thinking, support the decision: Our passion for our core purpose gives us the permission to speak up to achieve the best outcomes for our members. Our decisions align with our purpose, and our behaviours align with our collective decisions. Feedback takes bravery to give and courage to receive. From the foundation of this psychologically safe environment, challenge comes without judgement or personal criticism.

COMMUNITY

Community first, ego last: We recognise the strength in moving as a collective. We therefore operate on a basis of 'One Railpen', succeeding and learning as a team. We expect our colleagues to be active creators of a positive and inclusive culture by understanding and embracing each other's differences. We invest in each other, collaborating with humility and kindness. When our values are lived, our teammates feel they belong to a community, and this community extends to the members we serve.

INTEGRITY

Integrity leads to safety: Perform with integrity at all times. Doing so creates a safe environment where people are honest, transparent and committed to doing what is best for our members and Railpen. We expect teammates to be accountable and to honour our obligations to regulatory conduct and governance frameworks. Integrity also supports the creation of psychological safety, nurtures a culture of fair challenge and builds trust with members.

Case study 1 explains how we worked across Railpen, seeking extensive feedback from colleagues including on emerging iterations, to update these our values in 2023.

Case study 1: **Reshaping our values in 2023**

In last year's report, we discussed our Belonging programme, which aims to create a sense of connectedness amongst our colleagues. Part of our Belonging programme of work in 2022 also included activity to refresh our corporate values for 2023 and beyond. We said we would report on our values work in this year's report.

To do this we set up a Railpen Values and Behaviours working group (RVB), consisting of representatives from across the Railpen business. The RVB resolved that values should be co-determined, business-relevant and impactful in articulation and implementation. Alongside the active involvement by Sustainable Ownership team members in the consideration and creation process, our stewardship and sustainable ownership work was referenced by colleagues from across the organisation when they were asked to talk about Railpen's ideal values and behaviours. This demonstrates the interplay between Railpen's values and our sustainable ownership work: our values help drive and shape how we do sustainable ownership, while our sustainable ownership work in turn has helped shape how colleagues view our organisation.

Our values (see page 6) are all about alignment, community, and integrity. Since their launch in 2023, we have worked hard to embed them across Railpen. As well as holding celebration events across all offices during launch week itself, we did the following:

- Hosted highly interactive sessions for all colleagues, where a selection of Railpen's strategic leaders chaired colleague forums on each of the values
- Incorporated selected Railpen values into colleagues' Job-On-A-Page (JOAP) to ensure they are integrated into role accountabilities and support development progress
- Incorporated the new values into the design and decoration of Railpen workplaces
- Restructured our regular internal communications to provide examples of how Railpen colleagues have already started demonstrating and living our new values

We are conscious that it takes time to fully embed values across an organisation. We will continue to seek feedback from employees regarding the roll-out and any challenges they have living these values, adjusting our approach accordingly throughout 2024 and beyond. Furthermore, we will be looking at how we can integrate our values into more internal Railpen processes and external activities such as our Corporate Social Responsibility Policy.

Shared Trustee and Railpen Investment Beliefs

The importance of alignment to our collective purpose, succeeding and learning as a team and performing with integrity at all times are also reflected in the Trustee Investment Beliefs, and accompanying narrative. This includes the following:

- Railpen's mandate is to advise on and manage asset-liability risk on behalf of the Trustee to deliver sufficient long-term returns from the assets to meet the schemes' liabilities over a range of environments.
- On behalf of the Trustee, Railpen acts like the long-term asset owner we truly are, not afraid to be patient where decisions may result in pay-offs that are far into the future. We lean into periods of volatility and illiquidity, where others might shy away. Taking the time to position ourselves as an attractive long-term counterparty helps us access the right investment opportunities. Strategic partnerships in innovative areas take time to build but can offer significant reward.
- Railpen cannot deliver the best outcomes for members on our own... Our sophisticated and collaborative investing culture fosters innovation. Our sense of purpose and investment approach allows us to attract and retain the high-quality talent needed to execute on our investment philosophy.

As with our shared Trustee and Railpen Investment Beliefs, these guide and shape everything Railpen do. Taken together with Railpen's values (as reshaped in 2023), they drove our stewardship approach last year in the following ways:

Value	How we incorporated the value into Railpen's 2023 sustainable ownership work
ALIGNMENT Challenge the thinking, support the decision	• Each year we review and agree on the strategy, goals and accountabilities for our Sustainable Ownership Strategy for the following year and the Active Ownership, ESG Integration and Climate workstreams alongside others within the strategy. This takes place after discussion with, and challenge from, other teams across Railpen and in light of the insights we gain from our member survey. • These goals are intended to clearly align and contribute to our broader Fiduciary goals **(see page 14)**, which in turn helps us deliver for our members in line with our shared Trustee and Railpen Investment Beliefs. • Major projects, like our annual exclusions process and each year's AGM season, are also the focus of dedicated 'lessons learned' sessions, where all team members involved in each project are encouraged to share both what went well as well as what went less well, to support continuous improvement. The feedback provided in these sessions is formally documented and considered, with steps taken in response communicated back to the team.
COMMUNITY Community first, ego last	• We collaborate with others in the Fiduciary and Investment Management team, as well as with the Trustee. The relevant expert from the Sustainable Ownership team jointly engages with key holdings in partnership with Railpen portfolio managers and liaises on voting decisions. • We continue to focus on building a shared understanding of the importance of stewardship, ESG integration and the roadmap to net zero across the broader organisation. This includes our quarterly meetings with the Public Markets team, as well as our quarterly meetings with Client-facing teams. • We collaborate extensively with others across the sustainable investment industry to help drive long-term improvements in corporate behaviour and shape a policy and market environment that supports sustainable ownership.
INTEGRITY Integrity leads to safety	• Railpen and the Trustee were early pioneers of corporate governance. As one of the largest UK pension schemes, we continue to lead by example and work with others to raise standards in the industry overall. • We are willing to step in to provide the necessary industry leadership on ESG issues where we consider them to be i) material to our portfolio and ii) underexplored by other investors. In 2023, for instance, we led the way in fighting back against unequal voting rights at portfolio companies, which we believe is critical to being able to hold company management to account. Please see **case study 20** on our Investor Coalition for Equal Votes (ICEV).

We recognise that we are privileged to have the scale and in-house expertise that supports us to innovate on sustainable ownership. As well as learning from others, we also worked hard last year to support pension schemes and other investors to help raise standards across the sector. This aligns with Railpen's corporate values of 'Community' and 'Integrity' as well as with the Trustee's strategic goal to influence the shape of UK pensions.

Case study 2: **Demonstrating our values | Working to raise industry standards in 2023**

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

In 2023, we therefore continued to play a proactive role in several investment industry initiatives aimed at providing both formal and informal practical guidance to other schemes. We also welcome the opportunity to hear other perspectives and incorporate them into our work on behalf of members. Our 2023 work included the following activities:

- Contributing to government working groups and initiatives aimed at providing practical support for UK schemes such as the following:
  - Financial Conduct Authority's Vote Reporting Group (VRG) – for which a Railpen individual was initially co-chair of Sub-Group 1 but will take on the wider co-Chair role for the whole Group from Q1 2024
  - Taskforce on Social Factors (TSF) – where we sit on the Taskforce itself
  - Occupational Pension Stewardship Council – where we sit on the Engagement Group, chair the Alphabet programme of work, and feed into the discussion on member engagement.
- Helping to shape industry guidance and practice on climate change, as a material issue of concern to Railpen, the Trustee and our members. This includes our work as part of the UK Transition Plan Taskforce, for which we chair the Asset Owner working group and are part of the delivery group. It includes our work with the Institutional Investors Group on Climate Change (IIGCC) climate lobbying thematic working group and the IIGCC's Scope 3 emissions working group. We also contributed case studies to guidance for the Department for Work and Pensions (DWP), including the Taskforce on Social Factors (TSF) guidance and the Occupational Pension Stewardship Council (OPSC) member communications guidance for schemes.
- Focusing on other initiatives where they align with our approach and priorities: For instance, an individual at Railpen was re-elected as Vice Chair of the Global Investor Governance Network (GIGN) in 2023, focusing on US corporate governance issues. This aligned with our extensive allocation to American companies. We were also lead author on a 'how to' guide, published in 2023 by the International Corporate Governance Network (ICGN) Global Stewardship Committee on Systemic Stewardship and Public Policy, in line with our commitment to dedicated and strategic public policy activity to help achieve our market-wide stewardship goals.
- We supplement these activities by participating in conferences and events: In 2023, this included speaking on a panel at the Council of Institutional Investors (CII) conference about dual-class share structures in our capacity as the chair of the Investor Coalition for Equal Votes (ICEV). We also spoke at the Pensions and Lifetime Savings Association (PLSA) ESG Conference, on 'what good climate reporting looks like'.

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

Over the course of the year, the Trustee also worked on the five strategic goals that will support its mission to pay members' pensions securely, affordably and sustainably: operating schemes effectively; good member outcomes; clear plan, right responsibilities; thinking ahead for rail and influencing the shape of UK pensions. In 2024, Railpen will respond to the Trustee, outlining how it will help achieve these goals.

Deepening our work on Diversity, Equity and Inclusion

The 2023 update to our values confirmed our commitment to Diversity, Equity and Inclusion (DE&I). We work to develop a culture that respects and embraces diversity, making our working environment a welcoming place with a strong sense of community, where colleagues can fulfil their potential. Our purpose is to secure our members' future, and we believe that further developing a sense of belonging among our colleagues will help us achieve that purpose.

Case study 3 highlights how our work on DE&I at Trustee level and within Railpen developed in 2023.

Case study 3: **The Trustee's and Railpen's DE&I work in 2023**

Background

In last year's Stewardship Report we detailed the work of what was then called Railpen's Inclusion and Diversity Council (I&D Council). The work included understanding employees' priority DE&I issues, making our recruitment practices more inclusive, and creating an inclusive leadership approach.

Railpen used the learnings from these 2022 initiatives to create a more formal action plan for the Council's 2023 work on DE&I.

The DE&I Committee's work in 2023

The Inclusion & Diversity Committee (I&D) changed its name to the Diversity, Equity & Inclusion Committee (DE&I). This change underlines its commitment to create a truly diverse, equitable and inclusive workplace.

The DE&I Council's action plan received sign-off from Railpen's dedicated People and Culture Committee (PCC) and is intended to give the Committee accountability against the following objectives:

Theme	Objectives
DE&I policy and strategy	To ensure that Railpen has a clear DE&I vision, defining a comprehensive strategy and policy that supports our goal of creating an inclusive and diverse organisation where everyone feels they belong.
Data and insights	To ensure that Railpen's quantitative and qualitative colleague data is appropriately captured and analysed to inform decision making for DE&I policy and strategy.
Learning and development	To ensure consistent understanding and awareness of DE&I issues across Railpen – including the importance and benefits of DE&I and Railpen's expectations of its colleagues.
DE&I communications and engagement	To communicate and raise the profile and understanding of DE&I across Railpen, to help create and nurture a culture of inclusion and diversity within Railpen.
Recruitment	To ensure that Railpen's recruitment processes are fair, objective and inclusive, enabling us to attract and select from a diverse talent pool.
Processes and policy / DE&I impact assessments	To ensure that Railpen's decision-making practices, policies, processes and events are fair, objective, and do not present barriers to any of Railpen's colleagues.
Culture	To develop a culture at Railpen that has DE&I at its very core, where our decisions and approach are inclusive of all colleagues and members, and everyone feels that they can bring their true selves to work.

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Case study 3: **The Trustee's and Railpen's DE&I work in 2023**

The themes highlighted on page 10 were our priorities for 2023. We made the following progress:

- **DE&I strategy:** Railpen developed a DE&I strategy for 2023-2026. It sets out what we mean by DE&I, our aspirations, and our core priorities for the medium term. The Executive Committee and the People and Culture Committee (PCC) have overall responsibility for overseeing strategy implementation. The DE&I Committee works under the leadership of the PCC and contributes to the delivery of the DE&I action plan.
- **Data and insights:** To help us better capture data, we began with an awareness raising exercise: the DE&I Committee continuously campaigns on the importance of disability and ethnicity data, encouraging all employees across Railpen to consider updating the information that Railpen holds about them. We raised the level of colleagues sharing ethnicity data from 16% of colleagues to 51% of colleagues by the end of Quarter 4 2023. In addition, sharing of disability data has risen from 0% of colleagues sharing to 9.4% of colleagues at the end of Quarter 4 2023.
- **DE&I communications and engagement:** The DE&I Committee ran campaigns throughout 2023 on issues including International Women's Day, neurodiversity, trans rights, black history month and Pride. Many of these topics were led by insight from our employee survey, to make sure we cover the issues our employees care about.
- **Culture:** We established community groups for neurodiversity and menopause in 2023. These provide safe spaces, the sharing of lived experiences, support and networks organically grown by colleagues in Railpen.

We will continue to work to our action plan and strategy to create a diverse, equitable and inclusive workplace. 2024 brings learning & development as a priority and, at the time of writing, work has begun on how we can ensure consistent understanding and awareness of DE&I issues across Railpen.

Our Trustee's work on DE&I in 2023

As well as Railpen's work to boost its DE&I, the Trustee took steps to build on its previous work of setting up its Diversity, Inclusion and Succession Planning Working Group (DISWG) in 2021.

2023 activities included the following:

- Working closely with stakeholders, including Railpen, to understand how DE&I issues are addressed across the rail industry, and building partnerships to develop a pipeline of potential Trustee Director candidates
- Establishing a formal DE&I Policy and running a survey to monitor progress
- Revising processes to ensure robust, inclusive and skills-based succession planning

In 2022, Christine Kernoghan became the first female Chair of the Trustee. The Trustee has increased the number of Trustee Directors from ethnic minority backgrounds, the number of female Trustee Directors, and improved its age diversity.

In alignment with what we see as a responsibility to share learnings with other pension schemes, members of the Trustee also worked to shape industry standards on EDI in 2023. The Pensions Regulator (TPR) published Equality, diversity and inclusion (EDI): detailed guidance to help pension scheme governing bodies and sponsoring employers improve the DE&I of their scheme's board. One of our (now former) Trustees sat on the industry working group that developed this report, while several members of the Railpen team fed into TPR's broader work on EDI.

Stewardship in line with our shared Trustee and Railpen Investment Beliefs

Each of the Trustee's in-depth Investment Beliefs provides the parameter and framework for all parts of the investment process used across the organisation and our stewardship activities more specifically[2]. A coherent and updated set of Beliefs helps Railpen to ensure an alignment between our investment decisions and the interests of all our scheme members.

In 2021, the Railpen team worked closely with the Trustee to formulate a new set of Investment Beliefs that reflect how our investment philosophy has evolved in recent years and what our clients need from us in the future. Although all of the Beliefs are relevant to our sustainable ownership work, the Belief that is most pertinent is the following:

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

This table considers the impact of the changes to the Investment Belief (mentioned on this page) on our 2023 sustainable ownership work.

Investment Belief	2023 impact and progress
Well-informed and financially material ESG analysis	• Set-up of our Sustainable Investment Insights programme • More regular formal and informal catch-ups between the Sustainable Ownership and Fundamental Equities teams
Societal and systemic risks, such as climate change	• Led authorship of an ICGN Viewpoint (guidance) on "Systemic stewardship and public policy" (launched 2023) • New collaborative engagement launched on worker voice and inclusion • New thematic voting lines in our 2024 Voting Policy (**please see case study 24**)
Capital allocation by investors and corporates makes a difference	• Launched our Energy Transition Portfolio (**please see case study 8**) • Further refined our controversial weapons and climate exclusions processes • Undertook a 2023 round of engagements for our governance and conduct exclusions process
Positively contributing to the world our members retire into	• Clarified our outcomes-focused approach to engagement and voting • Re-considered the landscape for stewardship database and tracking tools (**please see case study 12**)

[2] *You can find our shared Trustee and Railpen Investment Beliefs in full at:* Railpen - Investment Beliefs.

Railpen's approach to stewardship

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

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

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

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

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

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

Progress and effectiveness at serving members' best interests

Railpen set the following strategic goals in 2022, which remained relevant to our thinking and approach throughout 2023:

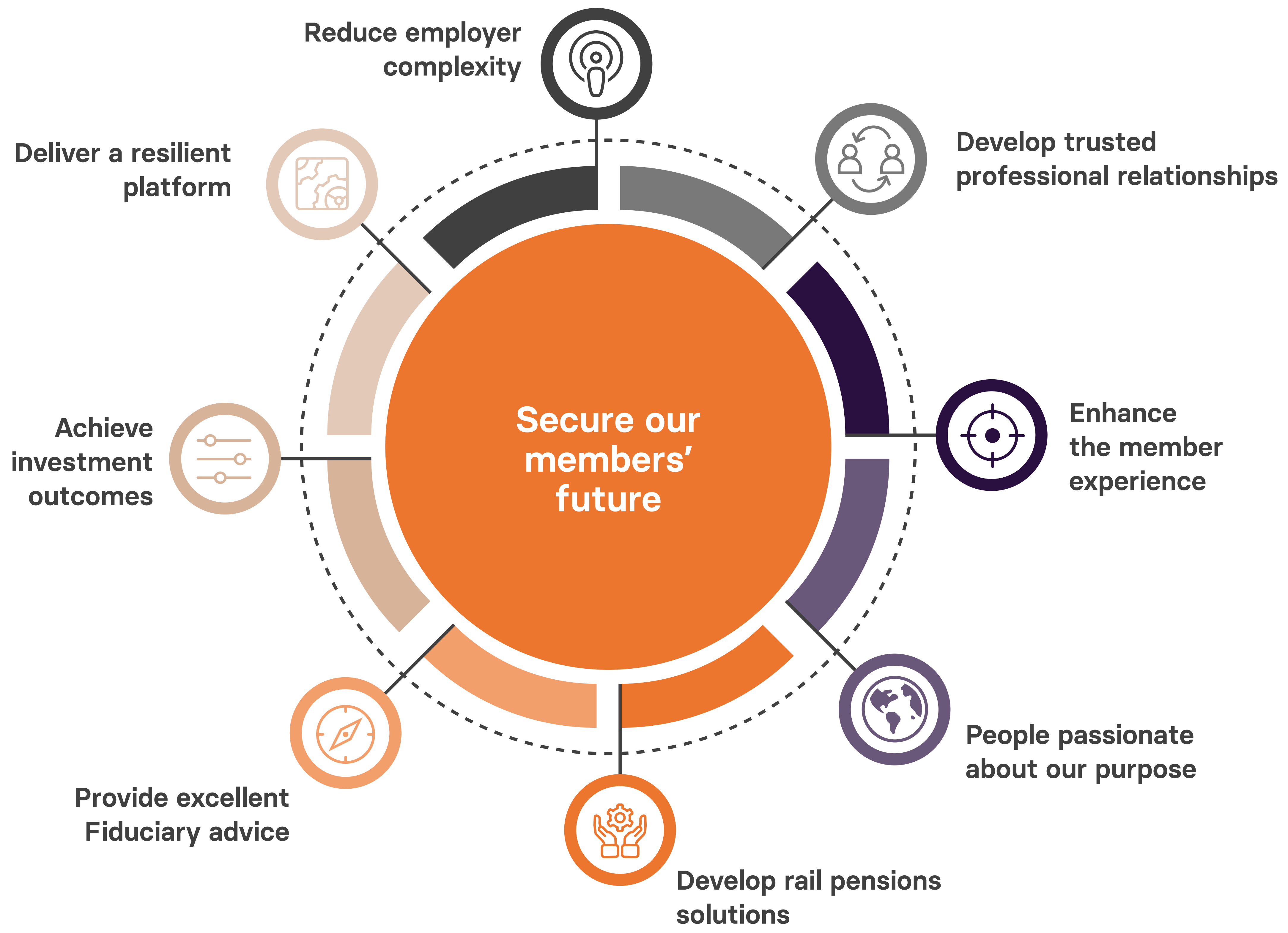


Figure 1 - Railpen's strategic goals

Building on Railpen's overarching strategic goals, a set of specific 2023 Fiduciary goals were established. These are mapped back to the overarching goals to ensure alignment between team activities, company strategy and, ultimately, the Trustee's mission. Within this, there were the following Fiduciary goals related to sustainable ownership:

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

All of these were intended to support us in undertaking effective stewardship on members' behalf to help Railpen secure our members' future. Progress in 2023 against these objectives is outlined on page 14. We were also delighted to be awarded the following prizes in 2023, which in part reflected our sustainable ownership work, for DB Investment Innovation of the Year and Factor Investing Manager of the Year at the Professional Pensions UK Pension Awards, as well as Pension Team of the Year and Commitment to Diversity at the IPE Europe Awards. A number of members of the Sustainable Ownership team also won individual awards, including Financial News Rising Stars of Fund Management, Top 50 Most Influential in Sustainable Finance in Europe, Top 30 'Ones to Watch in the City' from Brummell Magazine and the Simon Fraser Stewardship Award from the Investor Forum.

Rising Stars of Fund Management 2023
Sophie Harris – Senior Investment Analyst

Top 50 Most Influential in Sustainable Finance
Caroline Escott – Senior Investment Manager

IPE EUROPEAN PENSION FUND AWARDS 2023

Pension Team of the Year

Commitment to Diversity

Award received by John Greaves (left) – Director of Fiduciary Management

Award received by Emma Barry (left) – Head of External Communication

Progress against objectives in 2023

Objective 1: Communications which reflect stakeholder input and raise awareness	
Progress in 2023	• Sustainable Ownership Review (published September 2022) designed around member survey feedback (please see case study 5) • Twice annual meetings with the Sustainable Ownership Client Forum • Redesigned client reporting to reflect feedback on, for example, outcomes-focused case studies • 2023 Trustee deep-dive sessions tailored to match Trustee requests • Created sustainable ownership animated video for members, as well as member focused blogs • Created deep-dive webpages on key Railpen initiatives, including the Investor Coalition for Equal Votes (ICEV) – which extended to an ICEV LinkedIn account – and the Workforce Directors Coalition
Next steps	• Review of sustainable ownership member communications plan • Creation of an independent ICEV website

Objective 2: Deepen integration of sustainable ownership across pre-investment and post-investment	
Progress in 2023	• Thematic deep-dive analysis on issues including deforestation • Launch of Workforce Directors Coalition and production of workforce directors guidance – Workforce Inclusion and Voice: Investor Guidance on Workforce Directors (April 2023)
Next steps	• New Sustainable Investments Insight paper on alignment of incentives • Internal and external thematic stewardship papers on audit issues to be launched in 2024

Objective 3: Develop in-house analytical capabilities	
Progress in 2023	• Re-review of the stewardship objective and tracking database landscape undertaken • Dedicated 'Career Progression, Learning and Development' module rolled out to new joiners in the Sustainable Ownership team
Next steps	• Consider introducing an in-house corporate governance scoring platform • Appoint a stewardship database and reporting provider

Objective 4: Develop robust integrated funding risk management advice	
Progress in 2023	• Reporting line for Investment Risk and Sustainable Ownership teams merged in Q1 2023 • Part-time secondment from Sustainable Ownership team to the Client Investment Solutions team from Q2 2023
Next steps	• Incorporation of climate risk and opportunities into Strategic Asset Allocation

Objective 5: Development of a rail proposition which is attractive to clients	
Progress in 2023	• Ethical investment option launched
Next steps	• Monitor uptake of ethical investment option • Continue to monitor member feedback and evolution of broader market for sustainable and ethical investment options

STEWARDSHIP IN THE INTERESTS OF MEMBERS

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

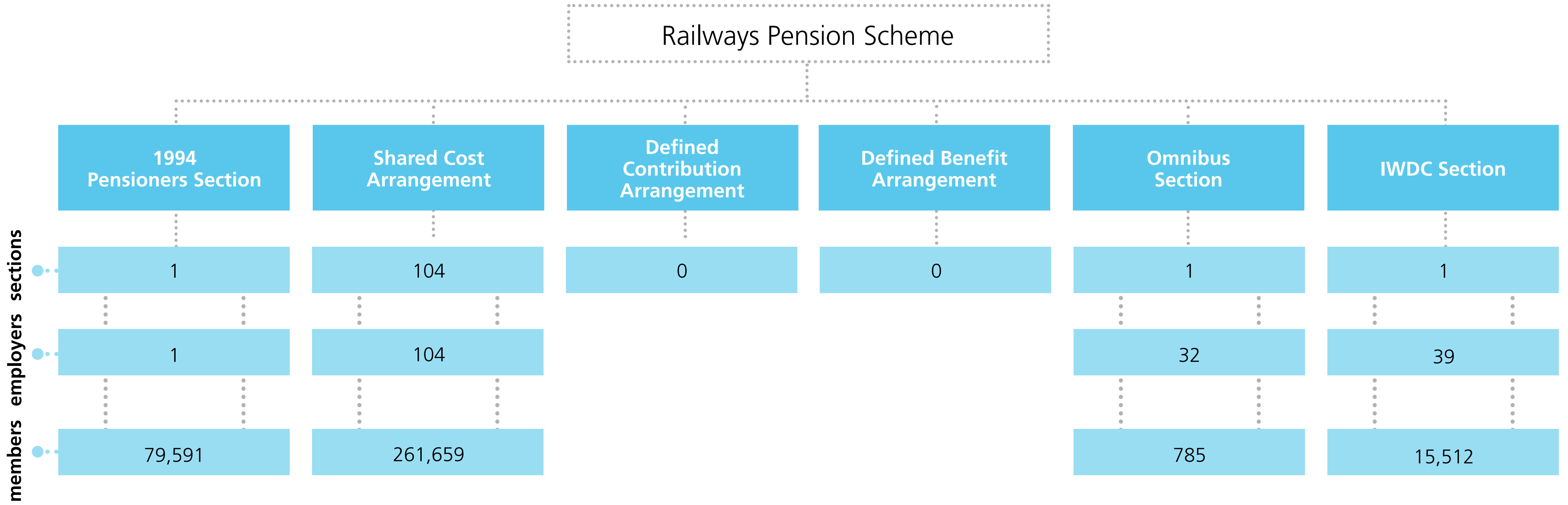
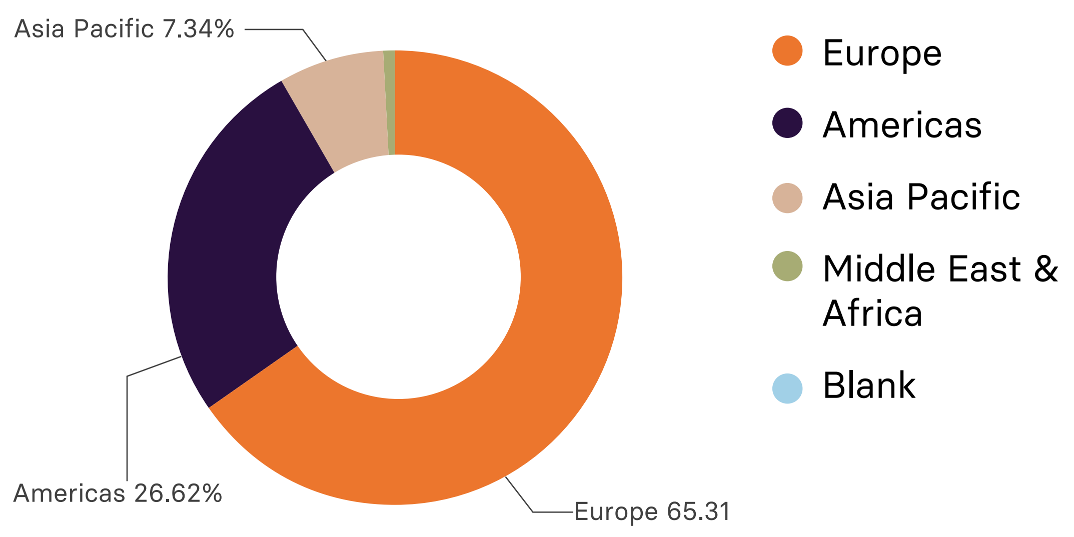


Figure 2 - Railways Pensions Scheme (RPS)

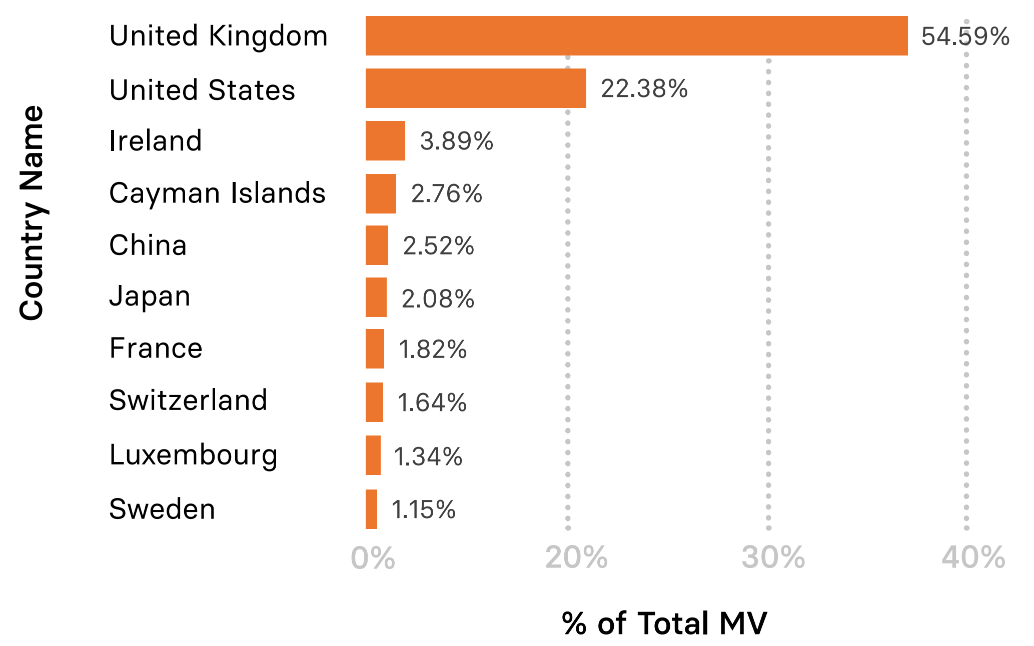
The c. £34 billion portfolio helps to pay the pensions of around 350,000 members. Given that many of the DB sections are open to new members and future accrual as well as having open DC sections, our investment time-horizon is extremely long. This means we have a significant allocation to growth assets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

Total Assets: £34.60bn **Total No of Countries: 73** **31 December 2023**

Asset by Region



Asset by Country



Top 10 Companies

Issuer Name	Market Value	Country
RELX PLC	£190M	GB
Novo Nordisk A/S	£182M	DK
Accenture PLC	£180M	US
L'Oreal SA	£176M	FR
Microsoft Corp	£169M	US
ServiceNow INC	£159M	US
Atlas Copco AB	£150M	SE
Taiwan Semiconductor Manufacturing Co Ltd	£150M	US
Amazon.com Inc	£143M	US
S&P Global Inc	£137M	US

AUM (£) by Asset Class

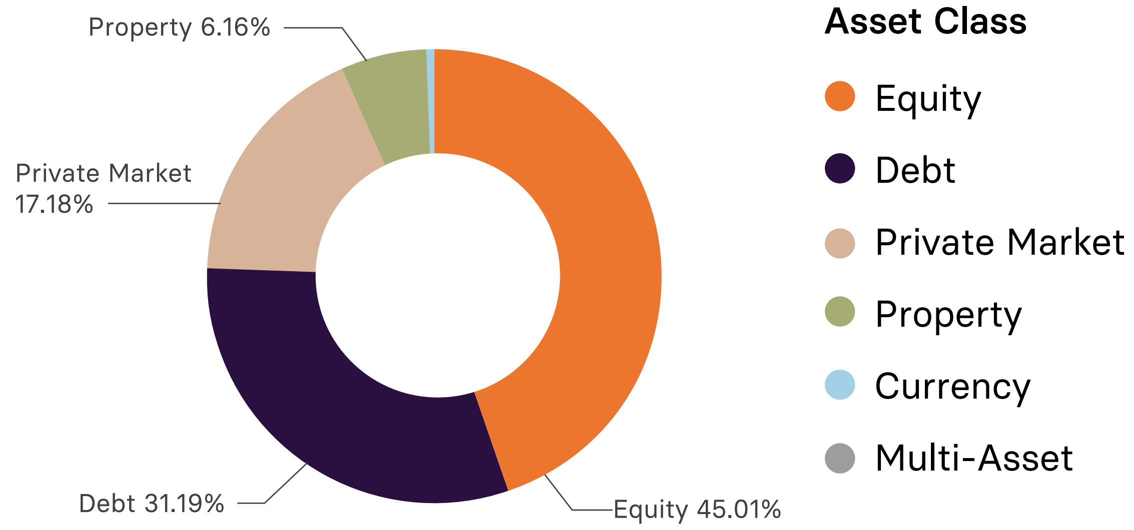


Figure 3 - Railpen's assets by country and asset class, 31 December 2023

Our portfolio continues to be mostly concentrated in developed markets and, in particular, the United Kingdom and the United States. This influences the level of resource we dedicate to stewardship activities in these jurisdictions, including our engagement and voting activities, as well as participation in relevant industry initiatives and policy debates. For instance, in Q1 2024 we launched a dedicated UK stewardship programme, recognising the improved access (and henceforth our likely capacity for influence) we as a UK asset owner gain at UK companies and focusing on the most material issues at our largest such exposures. Similarly, the work of the Investor Coalition for Equal Votes (ICEV) is focused on engagements with pre-Initial Public Offering (IPO) companies and policymakers in the US and UK. Prioritisation is vital to ensure that we focus resource on where we can achieve the greatest impact on our members' behalf.

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

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

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

How we understand the views of members

The chart to the right provides details of the demographics of our membership across age, location and gender[3].

The average proportion of active, deferred and pensioner members who are female is 30%, though this proportion increases in both the very young age categories (on a child's or dependant's pension) – and the older categories (likely owing to women's greater average longevity). It also falls to 21% on average when considering active members. Active members are most likely to be between the ages of 45 to 64 and 36% of all members reside in London or the South East.

Although there is an emerging body of evidence that seeks to highlight how attitudes to sustainable investment differ across gender, age and other demographic indicators, we believe that the results remain too inconclusive at this time. We continue to follow the debate with interest, however[4].

This is one of the reasons why, in 2023, Railpen re-ran its annual survey of RPS members on their attitude to sustainable ownership, and their communication preferences. We explore this survey and our broader sustainable ownership member engagement project in further detail in case study 5.

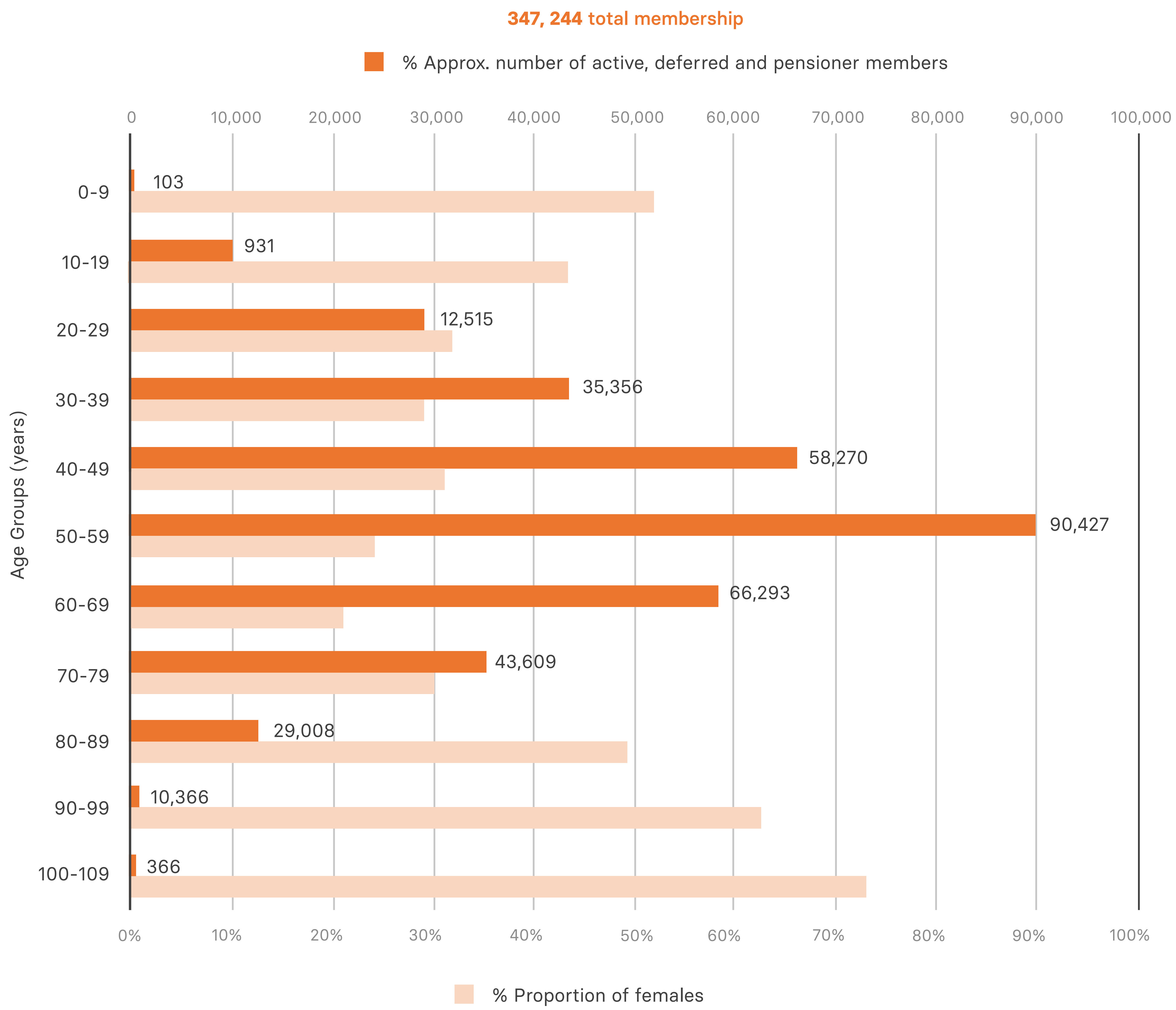


Figure 4 - As at 31 May 2021

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

- **The Trustee:** All 16 members are nominated by the members or employers of the railways pension schemes and bring a valuable understanding of member views to their trusteeship.
- **The Pensions and Management Committees (Pensions Committees):** These have been implemented by around a quarter of sponsoring employers – covering around 85% of the membership – to provide additional governance oversight. They are key forums for understanding the member perspective.
- **The Asset Management Committee (AMC):** This was established in 2021 to advise on investment issues, make significant investment decisions and oversee investment and fiduciary activity on behalf of the Railpen Board. Membership comprises one Railpen independent Non-Executive Director (iNED), two independent investment experts, two Trustee Non-Executive Directors or Trustee Directors and the Chief Executive.

The Railpen team has several opportunities for interaction with these groups, including regular virtual and in-person interactions between the Sustainable Ownership team and the Trustee throughout the year as well as regular investment workshops for Pensions Committee members and employers. Sustainable ownership is an agenda item at Trustee meetings at least once per quarter.

In 2023, the Sustainable Ownership team ran two half-day sessions with the Trustee, to seek views on key areas and provide training on relevant issues. The sessions covered forthcoming policy initiatives, such as the Taskforce on Social Factors (TSF), and Trustee monitoring on sustainable ownership. The team also created and ran a highly interactive role-playing exercise for the Trustee, in which they worked through a social issues engagement challenge together. The premise – based on a real situation faced by the Railpen team in 2023 – was as follows:

You are a fund manager. You have 3% of your portfolio invested in a French services company with sound financial performance. News breaks that the company is under investigation for working conditions and its approach to trade unions. What do you do?

This was an exercise in bringing to life the judgement calls the Sustainable Ownership team must make regularly in company engagements, including which stewardship tools to use and when. It was also designed to give them greater insight into the work of the Sustainable Ownership team on social issues (the 'S' of ESG) – particularly relevant given the recent work of the government's Taskforce on Social Factors (TSF). This should then support the Trustee to appropriately challenge Railpen on its stewardship work, in turn helping ensure they meet (and exceed) the expectations placed upon them by The Pensions Regulator (TPR). The session received good feedback from the Trustee and Railpen's peers have also expressed an interest in how we created and ran the session.

These dedicated sessions are complemented by quarterly standalone reports on sustainable ownership activities – primarily on our integration, stewardship and climate work – to be brought to each Trustee meeting for noting. The team also holds regular discussions with the Trustee director who acts as a dedicated liaison on sustainable ownership. In 2024, this work will be built upon through the creation of a dedicated Trustee Sustainable Ownership Working Group (SOWG), where a sub-group of Trustee directors will meet more frequently with the Sustainable Ownership team to take decisions on key projects. The intention is that this will support both more efficient and more deeply engaged interactions.

Our previous Stewardship Reports discussed how we deepened our interactions with our Pensions Committees and set up a dedicated Sustainable Ownership Client Forum (SOCF). Case study 4 outlines how these interactions and forums developed in 2023.

Case study 4: **2023 dialogue with Pensions Committees**

Over 2023, we discussed our sustainable ownership work with Pensions Committees and provided written quarterly updates.

Issues discussed included modern slavery, voting for impact, diversity and The Investor Coalition for Equal Votes (ICEV). As always, these conversations provided additional input into our thinking on key topics, with questions from members of our Pensions Committees covering how we:

- measure the impact and effectiveness of our engagements
- approach fair pay
- determine the criteria that govern our exclusions lists

Our Sustainable Ownership Client Forum
As highlighted in previous Stewardship Reports, in 2021 Railpen set up a Sustainable Ownership Client Forum (SOCF) to complement how we interact with our Pensions Committees and to expand and deepen our level of interaction. The forum consists of ten Pensions Committee members, as well as two Trustee Directors.

The agenda for each meeting is put together by the Sustainable Ownership team, based on interest from SOCF members. As well as a general Sustainable Ownership team update, the agenda includes 'deep dives' into specific topics. Our 2023 meetings included presentations on:

- Infrastructure – our approach to investing in the asset class through our Long-Term Income Fund (LTIF) and how we integrate sustainable ownership. See case study 10
- Equal voting rights – the importance of this, and our work on the Investor Coalition for Equal Votes (ICEV). See case study 20
- Voting for impact – our approach to AGM seasons, updates to our Global Voting Policy, and our 2023 voting statics. See case study 24
- Diversity – the importance of diversity, equity, and inclusion (DE&I), the work of our DE&I Committee, and our key achievements. See case study 3

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

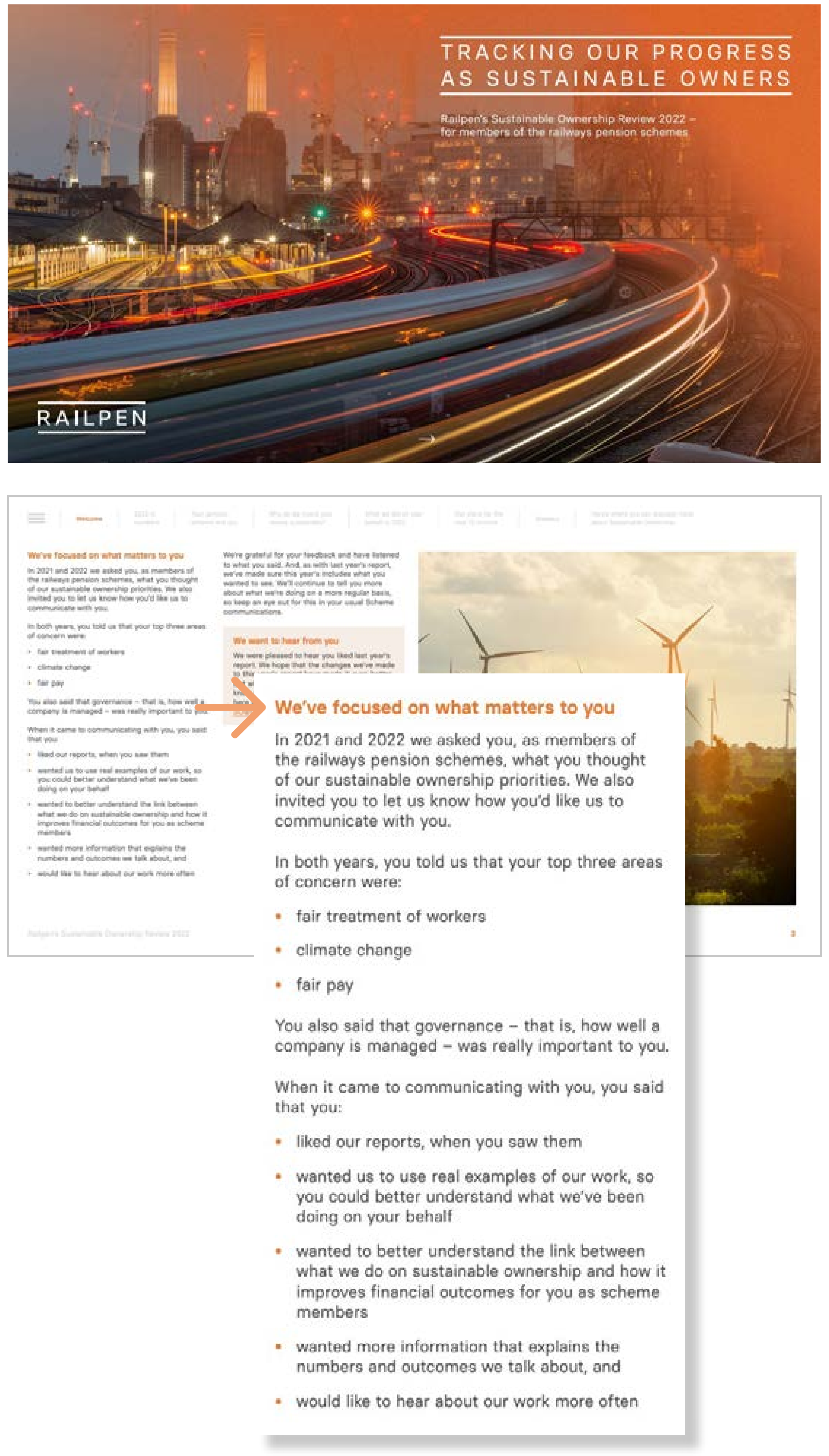
In 2024, we'll continue to run these meetings to enable two-way exchanges of information between the Sustainable Ownership team and Pensions Committees.

How we talk to members about stewardship

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

Previous Stewardship Reports outline the steps we've taken to improve the accessibility of the Sustainable Ownership Member Review[5]. In 2023, we built on feedback we received on the previous report – as well as the responses from the 2021 and 2022 member surveys – to further develop our approach to member-focused reporting on sustainable ownership, including the creation of a new video and some short-form blogs on topical issues such as proxy voting season. We discuss this more in case study 5.

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



We've focused on what matters to you

In 2021 and 2022 we asked you, as members of the railways pension schemes, what you thought of our sustainable ownership priorities. We also invited you to let us know how you'd like us to communicate with you.

In both years, you told us that your top three areas of concern were:

- fair treatment of workers
- climate change
- fair pay

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

When it came to communicating with you, you said that you:

- liked our reports, when you saw them
- wanted us to use real examples of our work, so you could better understand what we've been doing on your behalf
- wanted to better understand the link between what we do on sustainable ownership and how it improves financial outcomes for you as scheme members
- wanted more information that explains the numbers and outcomes we talk about, and
- would like to hear about our work more often

Figure 5 - Excerpt from our 2022 Sustainable Ownership Review (published 2023)

We talk more about the role the publication of this report played in our broader 2023 member engagement activity on sustainable ownership issues in **case study 5**.

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

- Latest Global Voting Policy
- Questions asked at AGMs and pre-declaration of voting intentions
- Thought-leadership publications and consultation responses
- Sustainable ownership disclosures and reports
- Railpen's voting activity

We also seek dialogue on sustainable investment issues with members through our social media channels, including an independent dedicated Member Advisory Group. Sustainable ownership forms a significant proportion of our content on the @Railpen and @RPSpensions X (formerly Twitter) feeds, as well as posts on Railpen's LinkedIn account.

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

We also continue to provide content on our sustainable ownership work for member newsletters at regular intervals. While we get a regular stream of member queries on our sustainable ownership work throughout the year, there are a large number of members who we don't hear from directly via our outreach channels. This is why we continue to survey members every year on both their sustainable ownership priorities and how they would like to engage with us on these issues. **Please see case study 5**, which discusses how we worked hard to reach and hear from those members who are not already engaged with our sustainable ownership work. We also continue to hold dedicated focus groups on sustainable ownership every two years with members.

Case study 5: **2023 sustainable ownership engagement with members**

Background
In 2021 and 2022, we ran our first survey and member focus groups to understand i) how our members felt about sustainable ownership, including their priority topics, and ii) how they wanted to be communicated with. In 2022 we published our Sustainable Ownership Review for members, based on what they told us. We then re-ran our member survey to monitor any changing views.

Our approach in 2023 and into 2024
In 2023 we surveyed the membership again but, recognising that previously we had mostly heard from those who were already engaged on our sustainable ownership work, we worked particularly hard to reach those members who are less naturally interested. We sent the survey to our Member Advisory Group but also highlighted it in newsletters, in news articles on member websites and promoted it on social media. We sent an email campaign to 5,000 randomly selected members, of all categories. This tripled the number of responses, albeit from a relatively low level. The increased level of feedback gave us more insight from less engaged members, which may account for some shifts in responses compared to previous years.

The key findings were as follows:

- 54% of members were familiar with the term 'sustainable ownership'. This shows a drop from the previous year (74%), but this may be due to a larger response from less engaged members.
- 58% of members were aware that Railpen was a leader in sustainable ownership.
- 79% of members thought it was important we try to influence the behaviour of individual companies to do better on environmental and social issues.
- The priority ESG issues changed, with climate change dropping down the list. The top area of concern was our approach to social issues, such as labour rights, avoidance of modern slavery and workforce treatment. Governance came next, with climate change last.
- The priority ethical (non-financial) issues were (in order): firearms and controversial weapons, fossil fuels and tobacco.

At the end of 2023 and into 2024 we ran focus groups with members. This allowed us to get their views in more detail. We spoke to 31 members in four online groups. There was a mix of ages, gender, and members were from all parts of the railway sector.

We categorised 16 of these members as already engaged with sustainable ownership, and 15 as not engaged. We worked closely with our client-facing teams and our Pensions Committees to ensure we reached out to, and heard from, members who were not engaged.

The headline findings showed members' views hadn't fundamentally changed since our 2021 focus groups. These 2023/2024 groups showed us that:

- Members still want Railpen to take a balanced approach to sustainable ownership
- Governance remains the priority issue for roundtable participants, followed by climate change, then fair pay and worker treatment. Members in these focus groups were surprised to hear climate change had fallen down the list of priorities in the member survey
- Some older members are concerned sustainable ownership could impact (reduce) their retirement income
- More engaged members are increasingly noticing Railpen's activity in the sustainable ownership space, and our communications about it – both of which they appreciate
- There's still more work to do to communicate sustainable ownership, to better explain it and to make members aware of our communications. Members suggested we work with employers and communicate through them to maximise our reach

Next steps
We note the concerns about the potential for sustainable ownership objectives to divert from seeking investment returns. Our activities are premised on our shared Trustee and Railpen Investment Belief that sustainable ownership and long-term returns are mutually reinforcing. We therefore see this feedback as highlighting a need to articulate still further the financial materiality of our sustainable ownership work with members. An immediate example of us putting this into practice is in this year's Stewardship Report glossary where, for the first time, we explain the terms 'ethical investment' and 'non-financial' (please see Glossary).

We are, however, optimistic that more members are noticing both our activity in, and communication about, sustainable ownership. The findings give us comfort that our communications strategy, aimed at discussing sustainable ownership with members more often and more clearly, may be producing positive results.

HOW OUR STRUCTURES ENABLE EFFECTIVE STEWARDSHIP

Our in-house investment management approach

The Trustee remains distinct from most other UK pension schemes in managing many of its assets through an in-house Investment Management team. This commenced with our Investment Transformation Programme in 2013, where we decided an in-house approach could provide more efficient and effective oversight and implementation of our long-term investment strategy on our members' behalf, while also saving on external management fees. This has significant benefits for Railpen's stewardship and ESG integration work as it allows us more direct control over the sustainable investment implementation both at the pre and post-investment phases and ensures greater alignment with our thematic priorities and our shared Trustee and Railpen Investment Beliefs.

Governance and oversight of sustainable ownership

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

In 2023, we merged our Fiduciary and Investment Management business units to continue to integrate as a business in a way that helps us collaborate and become increasingly agile in how we meet our changing clients' needs. Many sections of the Railways Pension Scheme (RPS) will need increasingly bespoke investment strategies to secure members' benefits, some sections now and some in the future. Combining these units allows us to better meet this need, and to provide a better, 'one-stop-shop' experience for our clients. For example, every time we invest in private markets, the Sustainable Ownership team is now even more closely integrated into this process from early on, strengthening the dialogue. Combining these units also puts more emphasis on a key area of fiduciary responsibility: helping the Trustee in choosing and overseeing investment strategies under increased complexity, providing clear rationale and efficient risk oversight.

The Fiduciary and Investment Management business unit brings together those teams that are responsible for supporting the Trustee and the Pensions and Management Committees in their oversight and top-down investment responsibilities. The Sustainable Ownership team's role in this explicitly links the Trustee's, and in turn members', needs and expectations to the sustainable investment decisions we make on their behalf. This helps to protect the value of members' savings.

In 2023, the reporting lines for Investment Risk Management (IRM) and Sustainable Ownership were also merged, with all individuals reporting to the Director of Investment Risk, Oversight and Sustainable Ownership (IROSO). This has already helped us find the synergies between, for instance, the risk and performance analytics capabilities from the IRM team and the in-depth understanding of ESG KPIs and reporting in the Sustainable Ownership team. The Director of IROSO reports to the Chief Officer, Fiduciary and Investment Management (COFIM), who in turn reports to Railpen's Chief Executive.

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

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

- **Before a decision to invest:** The Sustainable Ownership team undertakes analysis and, where necessary, co-engages alongside the Investment Management team with the company to probe any areas of interest or concern. The Sustainable Ownership team will assess and quantify the level of ESG risk and make a recommendation on possible mitigating activities.
- **After a decision to invest:** The Sustainable Ownership and Investment Management teams co-engage with key portfolio companies on stock-specific issues, as well as discussion of Railpen's overall thematic sustainability and governance priorities.

- **Voting recommendations:** These are, where relevant, made and implemented by the Sustainable Ownership team. If the equity is in one of our fundamental equities portfolios, decisions to abstain or vote against go to the relevant Investment Management team portfolio manager for discussion. If the two teams cannot reach a consensus, there is a process for escalation to the Director of IROSO.
- **Class Actions:** The Legal team follows a triage process to help assess whether to recommend participation for an Opt-in Class Action. The Sustainable Ownership team feeds in views regarding any potential reasons not to proceed, including on the grounds of conflict of interest, reputation or impact on our existing engagements. The COFIM provides final sign-off, on behalf of the Investment and Risk Committee, on the decision as to whether to participate.
- **Exclusion analysis and decisions:** These are led by the Sustainable Ownership team and discussed with the Investment Management team at regular meetings before going to the Investment & Risk Committee for approval and Asset Management Committee for noting. This is then implemented across both the internally -managed portfolio and sent to our external managers where relevant.

The potential lifecycle of an investment at Railpen

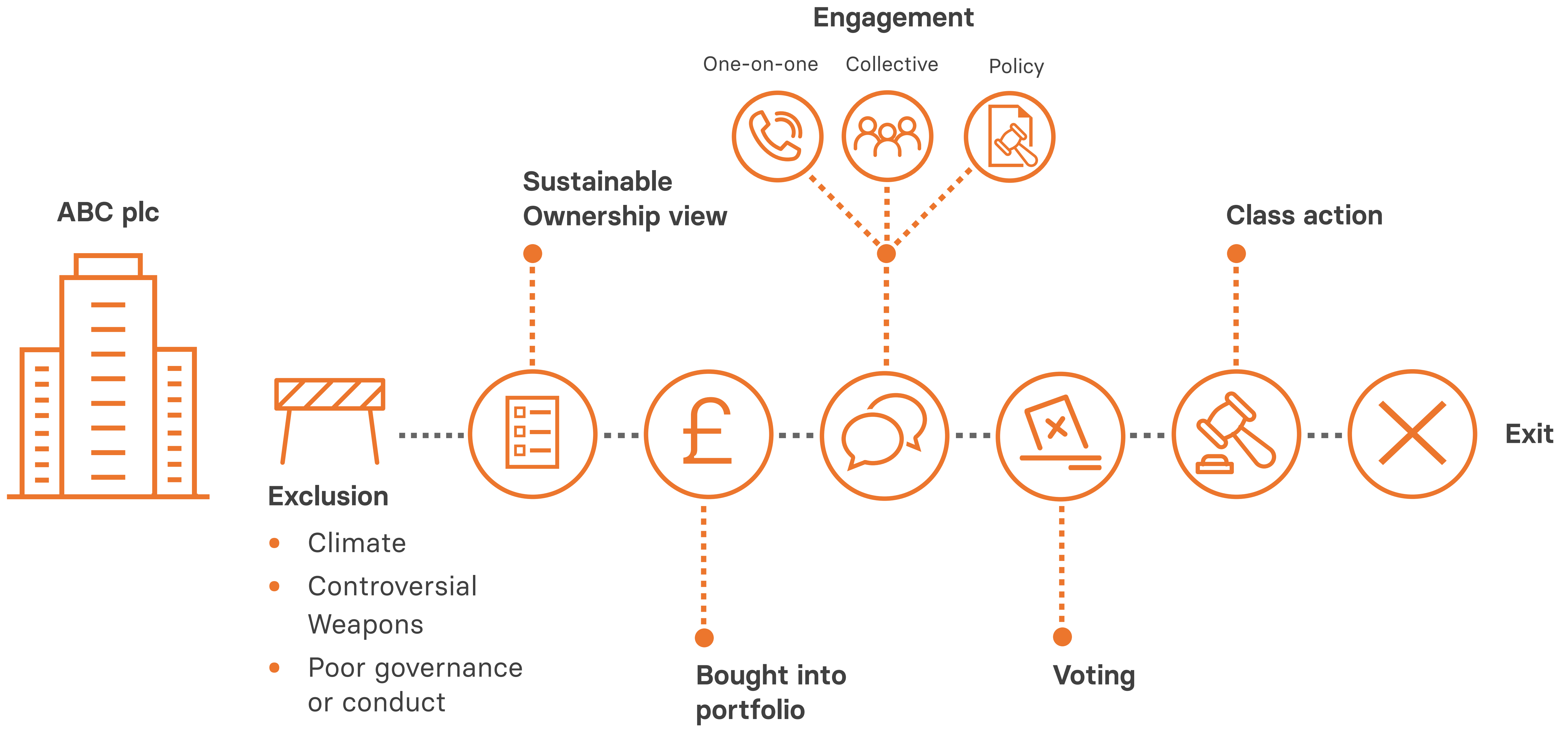


Figure 6 - The potential lifecycle of an investment at Railpen

How our policies and processes are regularly reviewed

Railpen recognises that the expectations for sustainable investment and stewardship are rapidly changing. We therefore regularly review and update our approach to, and policies governing, engagement and voting. This aligns with Railpen's broader approach to governance, in the wake of previous changes to our Risk function[6]. We deem updated, centrally stored policies and procedures essential to provide a road map for day-to-day operations, ensure compliance with laws and regulations, give guidance for decision-making and streamline internal processes.

The table shows how we reviewed and updated our policies in 2023.

Review activity (annual)	2023 updates
Global Voting Policy	• New lines on how we'll sanction companies that consistently pay their suppliers late, or not at all • Strengthening our approach to unequal voting rights, looking to vote against 'dual-class enabling' company directors • An expanded approach to risk disclosure, including new expectations on the just transition and use of International Financial Reporting Standards (IFRS) disclosure standards • Additional clarity on executive pay and the importance of engaging with the wider workforce
Exclusions Polices • Climate • Controversial Weapons • Poor governance or conduct	• To support a period of people change in our team (parental leave), we ran a focused version of our 'Governance and Conduct Zero Weight' exclusions process in 2023. **Please see case study 12** • Automation of controversial weapons and climate exclusions using ESG data vendors
Engagement targets and objectives	• Reviewed progress against four thematic stewardship priorities: Responsible Technology, Sustainable Financial Markets, Worth of the Workforce, and the Climate Transition • Updated our 2022 review of the provider landscape for stewardship data collection in light of rapid market developments. **See case study 14**
Due diligence processes (external managers)	• New dedicated external manager responsibilities for sustainable ownership analysts, to ensure we apply our standards consistently across different managers where possible

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

How we approach conflicts of interest

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

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

Figure 7 - Conflict of interests reporting process

Based on the nature of Railpen's business, the types of conflicts that may exist include those between:

- Railpen (including any person directly or indirectly linked to them) and its client, Railways Pension Trustee Company Limited ("RPTCL")
- Railpen and its employees
- Two or more Railpen employees
- Railpen and its suppliers
- Railpen entities

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

- Conflicts of Interest policies are reviewed
- The Conflicts contained within the Conflicts of Interest Register are reviewed to ensure that the detail of each potential conflict remains accurate and the mitigating controls remain operational and effective, and
- The Conflicts of Interest Register is presented to the Railpen Board

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

Railpen's work in 2023 built upon steps taken in 2022 to further strengthen compliance arrangements[7]. This included the following:

- Successful implementation of a framework to support compliance with Railpen's obligations under the FCA's new Consumer Duty, which sets a higher expectation for the standard of care that firms give customers.
- An enhancement of Railpen's control environment in respect of the prevention, detection and reporting of market abuse, which included the implementation of an automated surveillance system.
- A review of Railpen's arrangements under the FCA's Senior Manager & Certification regime and the delivery of enhanced training on the relevant conduct rules that each category of employee is subject to.
- Appointment of a new Director of Financial Crime who has commenced a project to refresh Railpen's Financial Crime control framework.

Managing potential stewardship conflicts

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

We can confirm that our potential stewardship conflicts in 2023 were incorporated into Railpen's overall conflicts of interest register. This means there is greater visibility for all staff, beyond those just in the Sustainable Ownership team, when it comes to managing stewardship conflicts.

[7] *You can find more details on these changes in our 2021 Stewardship Report.*

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

Conflict	Summary	Control	Description	Control Owner
External interests	A conflict may arise where an individual in the Railpen team, who could have an operational influence on stewardship activity, holds a role at (or is connected to an individual who holds a role at) an investee company, which influences Railpen's stewardship engagement in conflict with the interests of Railpen and its members.	Watch list	Individuals must identify and declare their conflicts on a rolling basis, or at least annually, to the Senior Investment Manager and Compliance. The company is placed on a watchlist and the individual is barred from participating in engagement and voting decisions pertaining to that company.	Senior Investment Manager – Active ownership lead
Commercial relationships with investee companies	A conflict may arise due to a commercial relationship with an investee company, e.g. one which is also a sponsoring employer of one or more sections of the railways pensions schemes, or a tenant of our internally-managed Property portfolio, which puts pressure on Railpen to vote or engage in a way which conflicts with the interests of Railpen and its members.	Restricted list	All Railway securities are on the Compliance Restricted List so cannot be purchased on internally-managed funds.	Senior Investment Manager – Active ownership lead
		Voting policy	Our voting policies apply to all listed companies, including without exception those that participate as employers in railway industry pension schemes or tenants in buildings of our Property portfolio. If we vote against management at an AGM of a company which is a sponsoring employer, we will notify our Chief Officer, Fiduciary and Investment Management and the Director of the Fiduciary Clients team, but only after the vote has been implemented.	
External manager stewardship	External managers, who may undertake stewardship activity on our behalf, may be conflicted when doing so and therefore may not do so effectively or in the interests of Railpen and its members.	External manager conflict disclosure	External managers are expected to report to us at least annually on instances of stewardship conflicts, using the PLSA's Vote Reporting Template. Where we believe that a manager's activities or policy on conflicts presents an unmanageable risk to how effectively they undertake stewardship on our behalf, it will be escalated to the Public Markets Manager Monitoring team and considered how best to take forward.	Senior Investment Manager – Active ownership lead

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

Issue

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

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

In the 2023 AGM season, a remuneration resolution at one of our sponsoring employers was flagged to us as requiring a decision. In assessing remuneration approaches at this company, we identified two issues: that the quantum of the CEO and other executives' remuneration was high, and that the CEO was in receipt of a final salary pension scheme with a high level of pension contributions compared to peers and the rest of its employees. This had previously been an issue at the same firm.

Objective

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

Approach

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

Outcome and next steps

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

The usual conflicts process was then followed. This consists of a post-implementation notification to our Chief Officer, Fiduciary and Investment Management and the Director of Fiduciary Clients, where we have voted against management at an AGM of a company that is a sponsoring employer. In addition, the decision was flagged to the External Relations and Communications team, as our voting records for all holdings are disclosed on our website.

Our experience on this and other companies led us to join the Fair Reward Framework, a collaborative initiative led by UK asset owners, and to advocate for the incorporation of pension (and other benefits) into a holistic consideration of executive and fair remuneration practices.

Internal sustainable ownership resources

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

Railpen also has a dedicated in-house Sustainable Ownership team of 10 individuals (not all of whom are full-time), who collectively bring the appropriate level of skills, knowledge and understanding to be able to deliver on the Trustee's commitment to sustainable investment and delivering good outcomes for members.

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

In 2023, we were delighted to appoint both a new analyst and a Climate Lead to the Sustainable Ownership team. Both hires are Chartered Financial Analyst (CFA) holders whose backgrounds covered investment consultancy, responsible investment and actuarial advice. We also hired an internal secondee Senior Investment Analyst with a background in risk management and project management, and we hired another internal secondee from our Benefits business unit as a Shareholder Voting Associate for a six-month fixed-term contract. These team members will support us during the busy period of proxy season. For these secondments, we deliberately sought team members from outside the Fiduciary and Investment Management team, to provide an interesting training opportunity and ensure that the Sustainable Ownership team benefits from new perspectives.

The importance of training and development

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

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

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

The intention behind CPLD is to offer a cohesive but flexible/easily-tailored framework to support direct reports and line managers in conversations to help orient career paths in a direction which both supports the business and the individual's personal development. The CPLD framework was rolled out across the (then) Fiduciary team, to those individuals who wanted it, over 2022 and 2023. Feedback from participating individuals has been excellent so far, with the intention now to roll the CPLD framework across the whole Fiduciary and Investment Management team.

Examples of training activities undertaken by relevant teams in 2023 include the following:

- A part-time secondment for one individual to the Fiduciary Clients team
- Studying for the CFA UK Investment Management Certificate (IMC)
- Participating in workshops and teach-ins on key active ownership or ESG issues
- Attendance at conferences organised by external providers (e.g. Glass Lewis, ISS the CII, the PLSA)
- E-learning modules on ESG issues such as modern slavery and employee engagement

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

- Online forums for dedicated discussion of the latest ESG research and analysis
- A dedicated 'focus issue' agenda item at each fortnightly team meeting, where an individual either from the Sustainable Ownership team or the wider organisation brings an issue to discuss
- A commitment from the senior team members to lead by example with weekly attendance at webinars and training sessions
- Team 'away days' to understand how better to collaborate and communicate, and how to effectively harness the benefits of the team's diverse backgrounds

How and why Railpen teams are incentivised

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

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

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

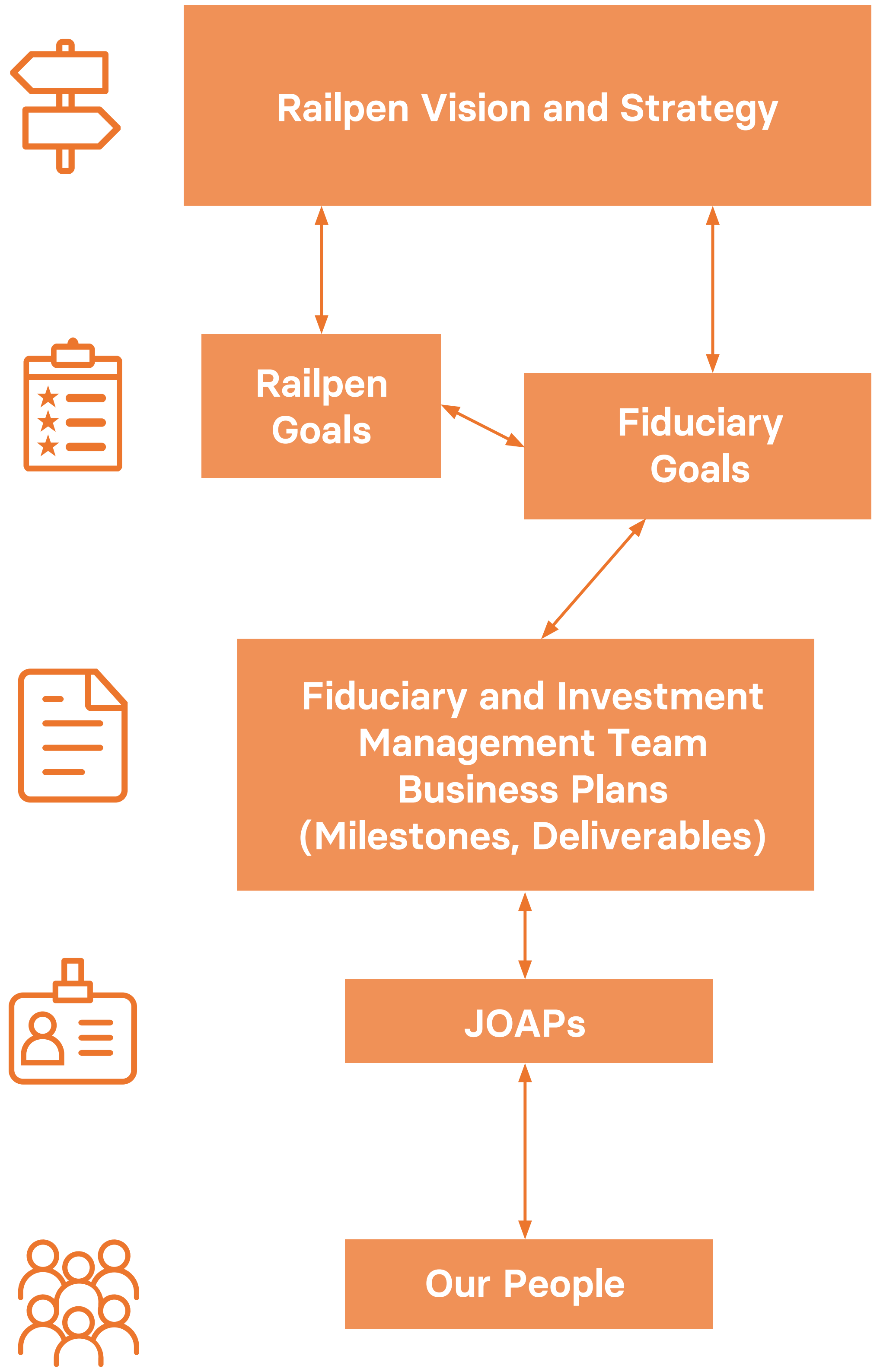


Figure 8 - Railpen Vision and Strategy

Linked to this individual performance assessment is the annual bonus programme or scheme, and the Sustainable Ownership team is eligible for participation in this programme. Like their colleagues, Sustainable Ownership team members are assessed against a number of accountabilities, behaviours and priorities in their JOAP, including individual delivery of ESG initiatives. From 2024, as articulated previously, this will also incorporate behaviour in alignment with the new Railpen values (**please also see case study 1**). Individuals' bonuses also depend on broader Railpen performance against a pre-agreed scorecard (**please also see case study 7** for details as to how this was updated in 2023).

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

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

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

Case study 7: **Refining our balanced scorecard to assess Railpen's performance**

As part of our mission as a long-term investor dedicated to securing our members' future, we integrate our purpose and goals into how we assess Railpen's overall performance. We use a balanced scorecard to help us do this.

The balanced scorecard is a set of measures designed to give an overview of Railpen's performance. We use it to set targets and track progress. It's shared with the Executive Committee and the Railpen Board to help them understand how the business is performing, and to identify any issues that might need acting upon.

In 2023, we refined the measures that the balanced scorecard covers. We try to use measures that are reported elsewhere within Railpen, such as risk metrics that are reported to our risk committees. This helps to create consistency and so better track progress. Our refined categories that the scorecard measures are:

- Commercial: Measures relating to our investment performance, financials, headcount and projects
- Customer: Measures relating to how our employers and members feel about Railpen
- Control: Measures relating to our regulatory compliance and internal controls
- Community: Measures relating to how it feels to work at Railpen

The work of the Sustainable Ownership team can be considered to either directly or indirectly affect several of these categories. We publish the scorecard internally each quarter. It shows where we're meeting targets and where we're not – and includes commentary to explain what needs to happen next. Then, each year-end scorecard is used by our Remuneration and Nomination Committee as one of its tools to assess Railpen's total reward pool for the financial year. This helps makes sure that all incentives are aligned with our objectives.

The scorecard will evolve in 2024 and beyond to ensure it continues to align with Railpen's strategy.

How effectively the Railpen structure supports stewardship

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

The 2021 restructure, rebrand and associated changes, which aim to give Railpen employees the necessary accountability lines and framework, are now more deeply embedded across the organisation. While the full impact will only become clear in future years, we think in 2023 these structures have been effective in supporting the impactful engagement, thoughtful voting and scrutiny of third-party service providers outlined elsewhere in this report.

Additionally, we believe the changes to our structure have allowed us to work even more closely with related teams over 2023, which has further supported our stewardship work:

- As well as the combination of the Fiduciary and Investment Management teams, Sustainable Ownership and Investment Risk Management now have the same reporting line. This has improved the communication flow between all levels of the different teams and ensures deeper conversations on analytics issues such as ESG Key Performance Indicators (KPIs).
- Working more closely with the Fiduciary Clients team has also allowed us to consider climate change on an integrated funding basis, and set up further collaboration with our Fiduciary Management team colleagues on climate scenarios.

The combined teams and reporting line make collaboration even more efficient, and accountability even clearer. This helps to enable co-ordinated activities with portfolio companies and to achieve positive impact in members' best interests.

SYSTEMATIC ESG INTEGRATION

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

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

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

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

Sustainable ownership assessments focus on the evaluation of material ESG risks, which are identified using the SASB Materiality Map as a starting point, analysis from our research providers and company reports, alongside our own professional judgement. Assessments take into account evolving drivers of ESG risk, including regulatory action, policy shifts, changing consumer preferences, and supply chain dynamics. This includes our close collaboration with the Fiduciary and Investment Management team to launch the "Energy Transition Portfolio". Please see case study 8.

Case study 8: **Launching our Energy Transition Portfolio (ETP)**

Issue
We believe in taking a thoughtful approach to supporting the climate transition in members' best interests and achieving real-world impact.

We recognise that commodities – the raw materials used in manufacturing – that enable the energy transition have insufficient or tight supply while demand continues to grow. This is also potentially the case for commodities that are being displaced as part of the transition.

Because of this, it's very likely these commodities will command high prices throughout an economic cycle. We also saw an opportunity to invest in infrastructure linked equities such as LNG Terminals and low carbon electricity generation (both nuclear and renewables) which will be vital in supporting the energy transition. This in turn benefits the cashflows of a range of companies linked to these commodities.

We also recognise that we can use both capital allocation and our influence as shareholders to invest in companies that can aid the energy transition. Once we are shareholders, we help these companies understand the case for investing their improved cashflows in establishing higher ESG standards and achieving better outcomes for people and the planet.

Objective
We wanted to launch a portfolio that invests in companies that are well-positioned to help progress the transition to a Paris-aligned world, but which could also benefit from our influence as engaged, proactive and climate-experienced investors.

Approach
After discussions throughout 2022 about the best approach to take and in-depth analysis of possible portfolio companies, we launched a new actively managed Energy Transition Portfolio (ETP) in 2023. This new portfolio invested across a range of energy, utilities and materials.

ETP was designed to take a thoughtful, active, and engaged approach to the critical sectors targeted by this portfolio – namely energy, utilities and materials. Our portfolio management and Sustainable Ownership teams agreed to work even more closely together to assess and engage with each company, focusing on credible climate transition plans and meaningful investor-investee dialogue.

ETP also invested in a relatively concentrated pool of holdings. This is because we believe that, by limiting the number of holdings, we can develop meaningful engagement with companies. We can support them with their transition plans and hold them to account, using the full range of tools available to the Sustainable Ownership team.

Outcome and next steps
As shareholders, we can engage with and influence companies' transition plans, and look to hold them accountable for their commitments and targets.

Investments via our ETP provide diversified returns for members of the railways pension schemes and look to support the transition to net zero.

We will continue to proactively use the full range of our stewardship tools to try to encourage these companies to support the transition to a Paris-aligned world.

Our roadmap to a net zero portfolio

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

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

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

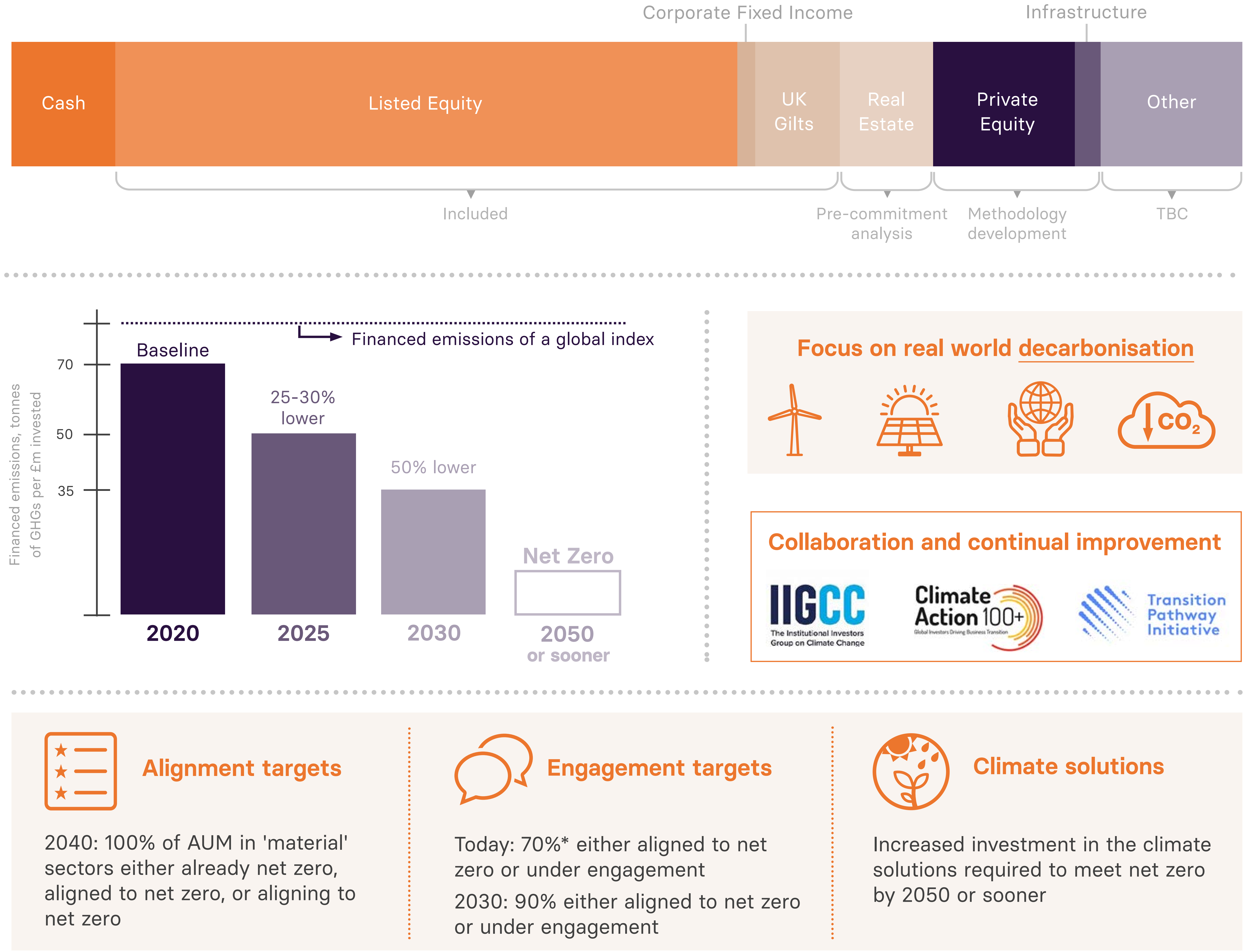


Figure 9 - Net zero assessment framework

**Measured by "Financed Emissions"*

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

In 2023, we focused on applying our climate assessment framework to key emitters and reviewing our Net Zero Engagement Plan. **Case study 9** demonstrates how this framework helped us shape our engagements with some key emitters in the portfolio. Further examples of climate-focused stewardship can be found in the **Impactful engagement** and **Thoughtful voting** sections of this report.

Case study 9: **Listed equity | Applying our climate assessment framework to companies in the 2023 engagement cycle**

Issue
We use our climate assessment framework to help us understand which climate issues could be most material to a portfolio company, and how well they're being addressed.

Within our Net Zero Engagement Plan, there were two companies that we rated as having significant issues corresponding to a high rating in our framework. **Nucor**, a large US-based steel producer, rated very high due to its high emissions footprint and intensity, and **WEC Energy**, a large US electric utility, rated high due to its reliance on coal-fired generation.

Objective
We think companies should set clear, measurable targets and disclose the detailed plans they have in place to meet those targets. As proactive shareholders, we work hard to engage with the companies in our portfolio that are most exposed to material issues and risk. We aimed for both companies to adopt climate targets and to engage with them as they developed strategies to reach those targets.

Approach
Despite being a large contributor to our financed emissions, **Nucor** is also North America's largest recycler of scrap metal and a leading scrap broker. Significant use of electric arc furnace technology and a very prudent management team also counterbalance its emissions footprint and intensity. We originally assessed the company as 'Not aligned' to net zero in February 2022.

We focused our collective and individual engagement with Nucor on areas including:

- Setting science-based interim and long-term net zero targets for Scope 1, 2 and 3 emissions
- Improving climate disclosures, TCFD reporting and adopting the Sustainability Accounting Standards Board (SASB) framework
- Developing a decarbonisation strategy

WEC Energy has a strong management team committed to long-term emissions reduction and transitioning to a mix of renewables, nuclear and gas-fired power generation. We assessed it as 'Committed' to net zero in 2022.

We focused our engagement on areas including:

- Accelerating the phase-out of coal for power generation
- Setting net zero targets, a decarbonisation strategy and increasing investment in renewables
- Improving climate governance

Outcome
During 2022-2023, both companies made progress.

Nucor lowered the emissions intensity of its steelmaking operations by:

- Reducing its use of pig iron
- Gradually increasing its use of micro mills
- Reducing Scope 2 intensity by focusing on renewables power purchase agreements (PPAs) for electricity use
- Increasing recycling
- Investing in carbon sequestration
- Partnering on nuclear fusion technology

Along with other initiatives, these actions spurred us to upgrade our assessment of the company to 'Committed'. Its Transition Pathway Initiative (TPI) management quality score has also improved from 2 to 3. And its TPI carbon performance assessment has improved as well.

WEC Energy made progress on its climate disclosures, including TCFD reporting and scenario analysis. It also:

- Accelerated targets for coal phase out from 2035 to 2030
- Increased renewables investments from 2022 to 2026
- Improved board oversight on climate

As a result, although our assessment still stands at 'Committed', WEC's TPI management quality score has improved from 3 to 4. Its TPI carbon performance assessment has also improved.

Next steps
Across both companies, our next steps include encouraging continued improvements in areas such as governance, climate links to pay, just transition considerations and capital allocation.

ESG integration by asset class

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

In 2023, we continued to deepen our approach to ESG integration across asset classes beyond listed equity. Prioritised asset classes were infrastructure and private markets, as investments within these portfolios:

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

Case studies 10 and 11 offer further insight into specific examples of pre-investment ESG analysis of opportunities in our Long-Term Income Fund and private markets.

Asset class	Integration
Listed Equities	• Sustainable ownership assessment carried out for all companies in our Fundamental Equities (FE) portfolio. We will reflect any concerns from our assessments in our voting and engagement approach. We also use intelligence from engagements to inform our assessment • Stock-specific engagement focused on FE holdings, and thematic engagement focused on holdings in our Quantitative Strategies (QS) portfolio • Exclusion of some companies on the grounds of climate, controversial weapons and governance and conduct • External manager monitoring, incorporating assessment of ESG integration, active ownership and climate change capabilities • Engagement, either direct or through CA100+ with key portfolio emitters
Fixed Income	• Exclusion of some companies on the grounds of climate and controversial weapons • External manager monitoring, incorporating assessment of ESG integration, climate change and active ownership (the latter for corporate bond mandates only) • Engagement with our fixed income managers regarding key emitters in our corporate bond portfolio

Asset class	Integration
Private Markets	• Sustainable Ownership assessment carried out for all transactions • External manager monitoring • In-depth engagements and relationship-building on co-investments, particularly where we have equity ownership
Property	• The Property Sustainability strategy integrates ESG into ongoing asset management, including tenant engagement • 2023 focus on improvement of data gathering on ESG issues, particularly carbon emissions • External manager monitoring
Infrastructure	• Sustainable ownership assessment carried out for all transactions, including site visits where feasible • External manager monitoring • Exclusion of some projects on the grounds of climate and controversial weapons

Case study 10: **LTIF | Developing Key Performance Indicators for infrastructure assets**

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

Objective
Building on our efforts to implement a new ESG risk assessment process for LTIF's investment opportunities, we turned our focus to monitoring ESG performance post-investment. We aimed to develop a clearer and more consistent monitoring framework, which would facilitate ongoing internal discussion on ESG factors. To achieve this, we established Key Performance Indicators for our directly held infrastructure assets.

Approach
For direct investments, we began the ESG risk assessment process by producing a 'Materiality Map', which lays out the sector-level ESG factors for a proposed investment against our assessment of the relative importance to stakeholders. Materiality Maps are not only used to help identify the ESG issues that should be analysed as part of investment due diligence, but also those that should be regularly monitored. Therefore, we began the process by reviewing our existing Materiality Maps.

Materiality Maps typically identify ESG issues linked to regulation, permit conditions and an asset's social licence to operate. Please see pages 35-38 in our 2021 Stewardship Report for more detail.

Based on the issues we identified, we developed relevant metrics, targets and RAG thresholds. We then gathered views from the assets' operational managers. This generated constructive conversations as to how we could better manage and monitor these ESG issues. We took the managers' extensive experience into account and amended our thinking based on their feedback as needed.

For example, we worked with the manager of Carraig Gheal Wind Farm in Scotland, Green Power, to identify links between ESG KPIs and the broader Risk Register.

We considered the following:

- Health & safety incidents and near misses
- Environmental incidents
- Disruption to protected species
- Waste electrical and electronic equipment (WEEE) recovery and diversion from landfill
- Relations with key external stakeholders

To determine quarterly RAG ratings for the selected KPIs, we also designed an agenda for meetings between our investment managers and members of the operational team.

Outcome
We now have a clearer and more consistent framework for monitoring the management of ESG risk across our directly held infrastructure assets. We began collecting data and finalised our first set of ratings at the end of 2023. The RAG ratings are presented at our internal review meetings for discussion with members of the Fiduciary and Investment Management team, and will be integrated into broader asset management efforts.

Next steps
As we collect more data, we plan to refine the KPIs. In particular, we plan to establish a more accurate baseline to adjust the RAG thresholds and identify trends. For future investments, we will focus on developing and discussing the feasibility of ESG KPIs with managers during the due diligence process.

Case study 11: **ESG due diligence on a manager**

Issue
In 2022, we were given the opportunity to invest in a middle market private equity fund, targeting controlling investments in companies across Europe in a range of sectors.

We invested in two previous versions of the fund, and our last assessment of the manager's approach to ESG, in May 2019, had been positive. However, we wanted to deepen our understanding of their approach with an updated assessment.

Objective
As with all investment opportunities in our private markets portfolio, we aimed to assess this fund to make sure ESG risks were identified and appropriately managed in the investment process.

Approach
Because the fund invests in a range of sectors, our assessment focused on the consistent application of the investment approach and governance of ESG at the fund.

We found the manager's overall approach was similar compared to our last assessment. ESG factors, including company values, were still built into the investment process at every stage, including origination, due diligence, value creation and exit.

We were also pleased to see some positive additions:

- A materiality assessment and an impact assessment carried out by the investment team
- Extra steps being taken, post investment, to improve ESG at portfolio companies, including setting some common targets and expectations of company boards, as well as additional reporting
- Final screening of ESG outcomes at exit to understand their impact

We were also satisfied with examples provided of previous investments where the process, from pre-investment due diligence to exit, had been faithfully executed. We could see that material ESG considerations were being assessed and addressed, particularly around governance. ESG considerations are also featured in value creation case studies.

Outcome and next steps
Our assessment of the fund's approach to ESG risk management did not raise any concerns, and we proceeded with the investment. We followed up with a meeting with the Chief Sustainability Officer to validate our assessment and agreed to meet regularly to monitor their approach and share best practice.

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

Negative screening and exclusion

Where we believe there is a long-term risk to the value of an investment or, in extreme cases, a significant reputational risk to the schemes, we will consider selling our holding. With the exception of 2021, when we conducted a review of our approach, we update our exclusion lists across the following three categories on an annual basis:

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

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

Case study 12: **Implementing our updated Governance and Conduct Zero-Weight process in 2023**

Issue
Railpen's Governance and Conduct Zero-Weight (Gov Z-W) process aims to identify those companies whose governance and behaviour are of particular concern. The aim is to avoid or to mitigate severe financial risks. The process helps us identify those companies with governance 'red flags' and where we think these governance risks may crystallise in the future.

Objective
We use our Gov Z-W process to exclude companies due to governance and conduct concerns, and also as a mechanism to drive positive change through engagement.

Approach and rationale
Railpen has run the Gov Z-W process every year since its inception in 2017, with the exception of 2021 when we reviewed and refreshed our approach. In 2022, the Sustainable Ownership team presented eight companies to the Investment and Risk Committee with a recommendation for either continuing to exclude, or newly excluding. These were approved and the exclusions implemented.

In 2023, we decided to focus on our 2022 excluded and watchlist companies rather than conducting a whole new screening process. This allowed a greater focus on analysis and potential engagement with the 13 companies of most concern.

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

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

Outcome and next steps
Companies that have been excluded in a previous Gov Z-W cycle can be reinstated in the portfolio if they're willing to begin a dialogue and can show an improved approach to managing the issues that triggered their exclusion. This motivates them to make the necessary changes. Because of the positive steps they took, we reinstated two companies: an American technology company (**please see case study 16**) and a South Korean listed manufacturing company.

Our recommendations were proposed and discussed as a team, and approved by the Investment Risk Committee. We communicated the outcomes, and the rationale for the agreed course of action, to the companies involved.

External manager selection and appointment

As outlined previously, Railpen uses a mix of internal and external management.

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

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

How external managers are monitored

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

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

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

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

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

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

The equities DDQ was rolled out across all of our growth managers in 2021 and last year's Stewardship Report highlights how we used the results of the assessment framework to identify gaps, engage with and deliver improvements at external managers. In 2023, we deepened our approach to assessing the ESG work at our private markets managers.

Our external research providers

Railpen uses a range of research from external providers to support our ESG analysis, our stewardship work and to inform our decision-making. We acknowledge that each provider's approach will incorporate its own methodology – and some level of in-built bias. This is why Railpen consults different providers and data sources and why we take steps to verify key information with our own internal analysis. Additional inputs to our analysis of source documentation come from the Sustainable Ownership team's dialogue with companies and other stakeholders, as well as media resources.

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

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

We use the following service providers:

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

We engage in regular communication and provide feedback to all our major service providers. Case study 13 provides further details as to how we engage with our proxy advisers to try to improve the breadth and depth of their standard advice.

In light of the growing interest in sustainable investment, the market for service providers across ESG and stewardship data, tools and advice, is rapidly developing. The Sustainable Ownership team therefore reviews the market landscape every few years to ensure that we receive the high-quality support necessary for undertaking effective stewardship and ESG integration[8].

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

Case study 13: **Engaging with our proxy advisers**

Issue
Proxy advisers play an important role in the voting ecosystem. Although Railpen's voting decisions are guided by our own internal, bespoke voting policy and framework, proxy advisers provide research and support to help institutional investors like us vote on issues such as executive compensation and corporate governance.

Given our size and scale, we recognise our responsibility to help make sure this ecosystem operates well. As part of this work, we engage with our proxy advisers both on Railpen-specific issues as well as on areas where we think they could improve their approach overall and support others to be more effective stewards of their assets.

Objective
We wanted to make our views known and have a positive impact on voting policy guidelines by giving thoughtful, logical responses to questions posed by our proxy advisers on key corporate governance issues.

Approach
We feed into the surveys of our major proxy advisers each year and encourage other investors to do the same. This year we fed into the surveys of both Glass Lewis (GL) and Institutional Shareholder Services (ISS).

GL asked some questions on dual-class share structures (DCSS) and we were keen to feed back our view that they should maintain an approach that recognises the detrimental impact of DCSS. Other questions in the survey spanned a variety of areas, including executive compensation, ESG and shareholder proposals, director commitments and the disclosure of greenhouse gas emissions targets among others.

ISS asked questions around US compensation, the classification of independent directors and how consistent the applicability of their policy guidelines on environmental and social issues should be (cross-border).

Outcome
Some of the key findings from the GL survey showed the following:

- Investors are in favour of a strong line on the use of dual-class share structures
- Investors view financial results, excluding total shareholder return (TSR), and incentive payouts relative to TSR as the most important factors when reviewing executive pay-for-performance alignment
- Overwhelmingly, respondents believe companies should set greenhouse gas (GHG) emissions targets. However, there was a split on exactly which companies should set targets – and exactly which types of targets they should set
- Most investors believe all board-level roles should be considered when assessing whether directors' commitments are overstretched

Key findings from the ISS survey included the following:

- 60% of investors stated that line-item reconciliation of non-GAAP adjustments to incentive pay metrics should always be disclosed in the proxy statement
- 25% of investor respondents said that it was appropriate to treat a director as non-independent due to a family member being employed by a professional services firm
- Over half of investors said they would like to see global consistency on principles and policy application for climate, biodiversity and human rights

Next steps
In previous years we have also fed back separately to both GL and ISS teams on issues not covered in their surveys. For instance, we've emphasised the need for more analysis of workforce issues and audit quality as part of their standard advice – as changes here are most effective at raising standards overall. People change in 2023, and the need to focus/prioritise accordingly, meant we did not have the capacity to do so last year, but we will look to do so again in 2024.

Case study 14: **Engaging with potential service providers | Stewardship implementation, monitoring and reporting system**

Issue
Railpen uses a number of different databases and systems to assist us in our stewardship activities, these allow us to:

- Store engagement and voting data
- Monitor stewardship progress
- Produce reports for audiences including the Trustee and regulators

Over time we've built on these systems to support new functionalities, both as the market has developed and the Sustainable Ownership team has grown.

We reported in last year's Stewardship Report on our review of the market, to explore whether there was a single solution that could replace our current approach to stewardship implementation, monitoring and reporting and help us be more effective. However, following our review we were unable to find a provider that would meet all our essential criteria, although we did find some that could meet a selection of these.

As such, we indicated that we would refresh our review of the landscape in 2023, given discussions with peers and others in the ecosystem indicated that the service provider landscape was changing rapidly.

Approach
As part of our previous review, we'd already agreed that the new stewardship system had to be able to:

- Combine engagement tracking and meeting notes, stock research, ESG data feeds and voting information
- Assign responsibilities to individuals either for key tasks or broader company-specific and thematic responsibilities
- Categorise engagement by activity and theme
- Create and easily update milestones and objectives
- Automate the process for uploading data and documents
- Produce tailored reports based either on activity or outcomes
- Produce visual statistics and graphs

For our updated review, we refreshed and refined our list of internal requirements, making it more granular and specific. This allowed us to be more deliberate in our assessment of external providers. We also re-engaged with some of our external managers and peers to understand their approach and the systems they use.

We then launched an in-depth review of the external provider landscape, considering available services both from specialist stewardship database providers and some of the larger integrated responsible investment platforms. We met with each of the key external providers in the space, gaining a better understanding of their business, their ability to meet our requirements and plans for future development.

We remain open to the option of building something internally with Railpen's investment IT teams, weighing up potential synergies with other internal systems.

Outcome and next steps
When we first started reviewing external stewardship system providers, we were pleased with how the market had been developing. And we've seen even greater progress since our last assessment of the landscape.

However, our own review is ongoing, and we haven't made a decision yet on our preferred approach. We're aiming to take a decision – whether this involves an external provider or a proprietary solution – and push forward with its implementation in 2024.

IMPACTFUL ENGAGEMENT

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

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

Direct engagement

We define engagement as the process of entering into dialogue with our portfolio companies in order to achieve a specific objective that is in the interests of long-term shareholders, including raising awareness of an ESG risk, influencing their approach to governance or sustainability, and improving disclosure. We focus our direct engagements on those holdings that are most material to our portfolio, i.e. where there is the most potential value at risk and where engagement – either to understand the company better or to achieve positive change – can have the greatest impact. This aligns with our shared Trustee and Railpen Investment Belief narrative that:

"Railpen recognises the value to be received from concentrated positions in high-quality assets we thoroughly understand. Allocations should primarily be made to assets with conviction, and should be sized to have a noticeable impact on a scheme's objectives."

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

- **Fundamental Equities** – companies that are held in our fundamental growth strategy. We seek to engage regularly with all these companies, of which there were approximately 90 as of spring 2024.
- **Thematic** – although Railpen may engage directly with key holdings on thematic issues, we often undertake thematic engagement in collaboration with others. We prioritise our resources across those coalitions we believe are the most impactful. We are a member of several coalitions and will typically lead on one or two companies within each while participating in some or all of the rest as a supporter. We also set up and lead coalitions where we think there is a 'gap in the market' on an issue that is material to member outcomes.
- **Quantitative Equities** – companies that are held in our quantitative strategy. We seek to engage with the largest holdings on an annual basis – often on thematic issues – covering a significant proportion of our assets under management in the portfolio.
- **Governance and Conduct Laggards** – problematic companies at risk of exclusion.

Company dialogues and opt-ins to specific coalitions are regularly reviewed with the Director of Investment Risk, Oversight and Sustainable Ownership.

While the bulk of our company engagement takes place within listed equities, we also engage on an ad-hoc basis with companies in other asset classes, specifically within private markets and fixed income. For instance, it is in our interest to enhance a private company's ESG practices, given as a long-term owner we may hold it post-flotation in our Public Markets portfolio. Even where we decide to exit at Initial Public Offering (IPO), meaningful engagement can lead to greater value at the time of our exit.

Typically, these engagements will form part of our pre-investment due diligence, but we are increasingly undertaking post-investment engagement as part of our ongoing Manager Assessment Framework process. In 2023, examples included site visits to some of our main US private markets managers as well as engagement with some of our directly held companies in our pre-IPO portfolio around share structure and voting rights in any future listing[9].

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

Direct engagement process

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

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

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

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

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

Case study 15: **Amazon** | Using engagement to promote improvements in sustainability reporting

Issue
We believe that direct and targeted engagement can produce tangible and positive results. One example is the feedback we gave Amazon in 2023 on its Sustainability Report.

Amazon is held in our actively managed strategy, through our Fundamental Equity portfolios. Due to the size of our holding, and the complexity of ESG risks that Amazon faces, we have been in dialogue with the company over many years on how it manages and reports on financially material issues.

Our analysis of the company's Sustainability Report covered how useful it was for investors, where its strengths lay, and where we saw areas for improvement. Social issues, particularly the 'Worth of the Workforce', remain a focus of our engagement. These issues are financially material to Amazon's operations and align closely with Railpen's thematic priorities. Therefore, that is where we concentrated our review.

Objective
We set an engagement objective to support Amazon in developing areas of disclosure where we expected to see improvements. For instance, health & safety, and employee engagement. Our specific aims were to encourage:

1. An explicit link between financially material ESG issues and the company's strategy
2. More easily trackable progress against targets, for example through publication of comparative year-on-year statistics
3. Improved balance and transparency, such as lessons the company has learned

Approach
We thoroughly reviewed Amazon's Sustainability Report, benchmarking it against the approaches of our other portfolio companies. We also took the critique from other institutional shareholders into account.

We provided overarching thoughts and section-by-section recommendations to be shared with the ESG Engagement and Reporting teams. Our feedback covered Amazon's performance in:

- Respecting human rights
- Employee benefits
- Diversity, equality & inclusion
- Employee engagement
- Safety, health and wellbeing
- Building a supply chain that puts people first
- Corporate governance
- Advocacy and public policy
- Partnerships

Outcome
We were pleased to see that many of our recommendations were reflected in Amazon's 2022 Sustainability Report (published in 2023). The following outcomes align with the specific disclosure objectives we set:

1. Linking material ESG issues to value and strategy: the report included enhanced introductions on the importance of each ESG issue and how it relates to Amazon's strategy
2. Making progress against goals easier to track: Amazon included statistics on its supplier monitoring, along with its progress towards targets from the Upskilling Report. It also added details of its progress against diversity, equity and inclusion goals. Finally, it quantified its human rights impacts, albeit these were difficult to contextualise without a supply chain map or sense of scale
3. Improving balance and honesty: we saw this done successfully in the supplier assessment section, but continue to feel that Amazon's approach to freedom of association could be more balanced. This was reflected through our vote for a shareholder resolution requesting an independent assessment of freedom of association and collective bargaining policies at Amazon's 2023 AGM

Next steps
Following discussions, we were invited to give feedback on the 2022 report. We recognised the progress made, but in our view, there are still some areas for improvement. For example, more case studies should be included to show Amazon's approach in practice, and enhanced disclosure on fatalities in the reporting year.

We initially discussed these points with the Amazon team before sending our full review. We will assess progress when the next report is published, and look forward to continuing our constructive dialogue.

Case study 16: **Reinstatement after an exclusion through our Governance and Conduct Zero-Weight (Gov Z-W) process**

We recognise that our Gov Z-W process can be a highly motivational tool for encouraging companies. Excluded companies are eligible to be re-included in our portfolio if the process shows the company is willing to have an open dialogue and can demonstrate an improved approach to managing the governance or conduct issues that triggered the exclusion.

In 2023, in light of improvements made, we recommended removing two companies from our exclusions list, telling these companies why we had taken the decision to help them understand the precise nature of our concerns. One of these companies was a large US technology firm.

Issue

The company sells computing equipment, data storage solutions and software.

We initially excluded it through our Gov Z-W process in 2022 after finding extensive governance and conduct red flags. These included a dual-class share structure, a lack of company responsiveness and engagement with shareholders, and allegations of forced labour.

Our attempts to engage with the company substantively were unsuccessful, with high level responses submitted after the deadline and in a way that did not alleviate our concerns about their commitment to meaningful improvement on severe governance issues.

Approach

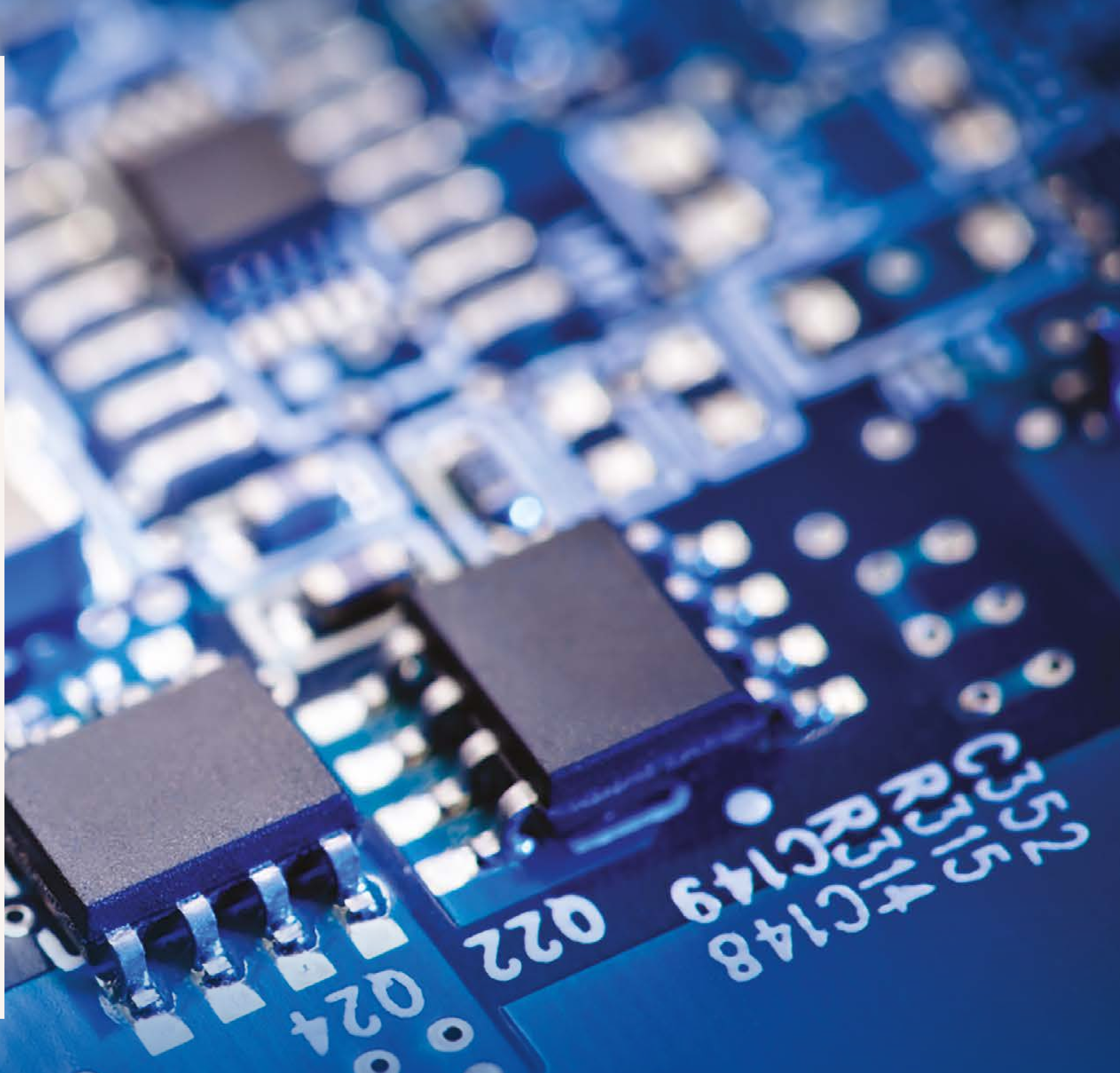
In 2023, we decided to focus our engagement on our 2022 excluded and watchlist companies rather than conducting a broader screening process. This allowed a greater focus on analysis and potential engagement for the companies of most concern.

We reached out to the US tech company again to talk about its progress, and found a new willingness to engage. Our follow-up analysis found significant improvements to its governance arrangements including increased independence on the Nominations and Remuneration Committees and the appointment of a Lead Independent Director.

Outcome and next steps

We make decisions about a company's exclusion (or reinstatement) based on a wide variety of criteria. We incorporate intelligence from our engagements, research, and analysis. We consider the level of progress made, and whether there's a credible commitment to further improvements in the future.

Based on our findings, we decided to remove the company from our exclusions list and informed the company of our decision, as well as our rationale for doing so.



Case study 17: **Listed equities | Teleperformance escalation**

Issue
Teleperformance is a global leader in outsourced digital integrated business services. Late in 2022, Time Magazine made allegations about poor worker conditions in the part of the business that moderates highly egregious content. Three weeks later, in November, the Colombian Government announced an investigation into the company via X (formerly Twitter). The result was a fall in the share price of almost 34% before trading was suspended.

Teleperformance categorically denied the claims. Similar allegations had been made before – and disproved. All the same, the company announced its exit from its moderation business in response to investor demands.

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

Approach
After engaging with the company, we considered that the allegations were potentially overblown, and the initial share price response was an overreaction. We welcomed management's decision to exit the controversial business areas given it was not being adequately rewarded for the reputational risk it was shouldering on behalf of clients. And we welcomed management's response after this all transpired.

We also welcomed the fact that Teleperformance signed a global agreement with UNI Global (a global union representing more than 20 million workers in the services sectors in 150 countries) on working conditions. This agreement covered all the company employees.

The agreement allowed Teleperformance to re-engage with Ultra-Claro, UNI Global's Colombian affiliate, so it could negotiate a local agreement with them. We had previously spoken to UNI Global multiple times about workforce relations and conditions.

Outcome and next steps
Shares recovered to 90% of their pre-Colombia investigation announcement levels soon after. However, Teleperformance unexpectedly decided to resume full-service content moderation in March 2023. When this happened, we worked alongside our investment team to understand the rationale and assess whether there were enough safeguards in place to prevent further allegations.

Following Teleperformance's announcement to acquire content moderator Majorel, we engaged with it to discuss its perceived pivot away from its core strategy. We questioned how much due diligence into Majorel's workforce relations had been carried out before the acquisition.

The responses we got from the company did not give us comfort that this risk was being managed appropriately. We therefore decided to divest from the company. Shortly after we divested, Teleperformance's share price fell approximately 30%, before falling even further towards the end of 2023.

Collective engagement

Direct engagement can be a powerful tool for effecting change. However, combining Railpen's voice, influence and expertise with those of other investors and stakeholders, whose interests and objectives align with our own, can make our engagement efforts more effective. This is particularly – though not exclusively – the case for thematic issues or system-wide risks[10].

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

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

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

- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)
- CDP (formerly Carbon Disclosure Project)
- Workforce Disclosure Initiative (WDI)

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

The following case studies provide insight into our work as part of core collaborative engagement initiatives on priority issues in 2023.

Initiative	Railpen role (2023)	Alignment with core thematic priorities
Amsterdam Coalition (remuneration)	N/A (no engagements in 2023)	Sustainable Financial Markets
C6 (diversity at USA companies)	N/A (no engagements in 2023)	Worth of the Workforce
Coalition on Facial Recognition	Participant (merged into the WBA Ethical AI Initiative for 2024)	Responsible Technology
Climate Action 100+	Co-lead or contributing investors on several company engagements	The Climate Transition
Cybersecurity coalition	Lead on two company engagements	Responsible Technology
FAIRR (ESG risks in the global food sector)	Participant	The Climate Transition
Fair Reward Framework	Steering group	Worth of the Workforce
Find It, Fix It, Prevent It (modern slavery)	Lead on one company engagement	Worth of the Workforce
IIGCC Bondholder Stewardship Group	Chair	The Climate Transition
Investor Coalition on Equal Votes	Chair and Operational Lead	Responsible Technology/ Sustainable Financial Markets
Investor Forum	Participant	Sustainable Financial Markets
Votes Against Slavery (modern slavery)	Participant	Worth of the Workforce
Workforce Directors Coalition (WDC)	Chair and Operational Lead	Worth of the Workforce
30% Club Investor Group (gender diversity)	Lead on one company engagement	Worth of the Workforce

10 *Please also see* ***page 70****, under section entitled: '**Identifying material market-wide issues**'.*

Case study 18: **Collective engagement | Cybersecurity**

Issue

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

In the UK, the Cyber Security Breaches Survey 2023 found that 32% of businesses recall a cyber breach or attack in the last 12 months, and this is much higher for medium businesses (59%) and large businesses (69%).

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

Objective

In last year's Stewardship Report, we reported on how we aim to address the systemic risk of cybersecurity through collective engagement efforts, as well as raising the subject in key direct engagements. Our initial goal has been gathering information to establish a set of expectations for portfolio companies.

Although cybersecurity practices are challenging to influence due to their sensitivity, we strive to make sure that portfolio companies' risk management meets our expectations and that this is reflected in their disclosures. We are a contributing member of the Royal London Asset Management-led cybersecurity coalition, who have highlighted investor expectations on cybersecurity engagement.

As part of the coalition, we engaged with a portfolio company – AbbVie – that discovers and delivers pharmaceuticals. AbbVie was selected in light of its role in the healthcare ecosystem, its extensive and growing digital footprint, and the level of sensitive data it holds. We have been in dialogue for the last year, with an aim to strengthen the company's reporting on cybersecurity management.

Approach

Before its 2022 AGM, AbbVie was initially unresponsive to our outreach. Therefore, we signalled our concerns by voting against the director we deemed to be responsible for risk oversight – the Chair of the Audit Committee. We also asked a question at AbbVie's AGM on the materiality of cybersecurity, and repeated our request for a meeting.

Following this escalation, we were able to establish dialogue with subject-matter experts at the company. During discussions, we encouraged AbbVie to consider including cybersecurity in the board's skills matrix and highlighting the Audit Committee's oversight role more explicitly in its reporting.

Outcome

In early 2023, we were pleased to see that director biographies had been updated to include additional skills of interest to shareholders, such as cybersecurity experience. There is also now a dedicated section on cybersecurity within AbbVie's ESG Report, which fulfils many of the coalition's expectations through disclosure of:

- The Audit Committee's oversight role
- The presence of a Chief Information Security Officer (CISO)
- Tailored cyber training across the workforce
- Monitoring of suppliers' approach to cybersecurity procedures

These disclosures also put AbbVie in a better position to meet the SEC's new requirements on cybersecurity. The rules require companies to disclose material cybersecurity incidents, as well as material information about their cybersecurity risk management, strategy, and governance. We were pleased to see the SEC adopt these requirements in 2023, after responding into their consultation as part of the cybersecurity coalition. Many of the SEC's new requirements aligned to what we had called for in our response.

Although AbbVie still has areas for improvement, particularly around due diligence when making acquisitions, we recognise the significant progress made. As a result, we were able to support the election of all Audit Committee members at AbbVie's 2023 AGM.

Next steps

The coalition intends to publish practical guidance and support for the industry on engaging on cybersecurity, incorporating learnings from what is now several years of stewardship work on this topic. We're conscious this is a highly technical area. However, given its materiality, we think it's important to help others engage meaningfully with their portfolio companies – or their asset managers – on the issue.

Case study 19: **Collaborative engagement on modern slavery with Find it, Fix it, Prevent it**

Issue
Modern slavery is a sub-focus of our 'Worth of the Workforce' stewardship theme, and aligns with the broader aims of our internal Modern Slavery Working Group.

Modern slavery is a systemic risk and can be financially material to portfolio companies due to costs incurred because of reputational damage, trade sanctions, and reduced supply chain resilience.

Modern slavery affects an estimated 49.6 million people on any given day, meaning there are around six victims of modern slavery for every 1,000 people in the world. Given its prevalence, we believe there are cases in the supply chain of nearly every company. Therefore, those with robust processes and practices should be able to find them and fix them. We will not judge a company on whether modern slavery is present in their operations or supply chain, but on how they respond to it.

We joined the CCLA Investment Management-led Find it, Fix it, Prevent it coalition in 2022. The coalition's focus for 2023 was the construction sector, which is highly exposed to modern slavery risks. Many cases involve migrant workers whose situations of forced labour stem from extortionate recruitment fees and other fraudulent recruitment practices of unscrupulous labour intermediaries.

We decided to lead engagement with Volution, a manufacturer of ventilation equipment for commercial and residential customers. The company is held in our actively managed strategy, and exposed to modern slavery risks through the sector and geographies in which it operates.

Objective
In line with the coalition's aims, our objective was to engage with Volution to understand how it investigated its direct operations and supply chain to identify and eradicate modern slavery.

The CCLA also developed a disclosure assessment framework, which we used to benchmark the company, find areas for improvement and encourage discussion around them.

Approach
We assessed Volution's disclosures on modern slavery risk management and found them to be thoughtful, with areas for further clarification. Given our ongoing dialogue with the company, our Fundamental Equity & Sustainable Ownership teams engaged with senior executives to understand Volution's strategy on modern slavery risk management. We discussed whether they had identified any cases of modern slavery, escalation processes, and how these issues were reported to the board.

We were pleased with their responsiveness and were able to arrange a more in-depth discussion with the Procurement team. The team demonstrated its audit process, which included social factors, and we shared a set of recommendations. These included audit best practices, and how the company's disclosures could be enhanced through information on:

- Incidents identified
- How risk assessments are conducted
- The level of office-based risks and efforts around this
- Employee training

Outcome and next steps
Through engagement, we developed a deeper understanding of Volution's supply chain mechanisms. We also saw enhanced disclosure in the company's most recent Modern Slavery Statement, which can provide reassurance to other institutional investors. Using the CCLA's assessment framework, we saw particular improvements in disclosure on:

- Incidents identified
- Volution's risk-based approach
- Acknowledgement of office-based risks

We are currently continuing our efforts as part of the coalition. We also intend to use what we have learned to engage other companies on this topic.

Collective engagement beyond listed equity

We recognise that collective engagement in asset classes beyond listed equity is still evolving. Case study 20 highlights Railpen's work in 2023 to fill what we perceive as a gap in the market for clear, consistent engagement with private companies on unequal voting rights.

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

Case study 20: **The Investor Coalition for Equal Votes (ICEV) | Progress in 2023**

Issue

In our last two Stewardship Reports, we reported on the work we've done so far in pushing back against dual-class share structures (DCSS) and unequal voting rights at portfolio companies. This work – which includes engaging with pre-IPO (initial public offering, i.e. private) companies – is key to improving corporate governance standards and ensuring investors like Railpen have a safety net to hold company management to account, where necessary, by exercising effective stewardship through our voting.

We also previously reported on our work to launch the Investor Coalition for Equal Votes (ICEV) in summer 2022, together with the Council of Institutional Investors (CII) and several US pension funds, to fight back against unequal voting rights at companies primarily in the US and UK (reflecting our portfolio allocation).

The issue is complex, multi-layered and has been entrenched for decades in certain jurisdictions.

Approach and rationale

As reported previously, ICEV considers the issue of unequal voting rights to be a system-wide topic – this means that we aim to shape the mood-music, and influence the regulators whose actions can either help or hinder unequal voting rights.

We also aim to influence companies at a point in their life-cycle where they are still open to conversations on their capital structure (i.e. before they obtain a public listing).

To these two ends, we made the following progress in 2023:

Shaping the mood music

- **Welcoming new members to ICEV, growing our AUM**
  This included our first asset manager member, and a growing membership outside of the US and UK into the rest of Europe. We're continuing to speak with prospective members
- **Spreading the message**
  Railpen, as Chair of ICEV, spoke at conferences and in press including the Financial Times, The Times and Reuters about the importance of ICEV and its mission. We also increased the quality of our public-facing materials, including our web page
- **Publishing a well-received, policymaker-dedicated report**
  The research report, produced with Chronos Sustainability – Undermining the Shareholder Voice: The Rise and Risks of Unequal Voting Rights – summarises some of the available research on the implications of DCSS for companies' financial performance. It also explores several recent case studies of controversies at companies with DCSS.

  The report sets out recommendations to support the phase out of DCSS and mitigate the risks around their use. These recommendations are tailored to different financial market participants, including companies considering an IPO, company advisers, fellow investors, stock exchanges and index providers, as well as policymakers and regulators
- **Responding to the FCA Consultation CP23/10: Primary Markets Effectiveness Review**
  ICEV's response focused on the issue of DCSS, explaining why we support a 'one share, one vote' structure with supporting academic research on the link to companies' financial performance

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Case study 20: **The Investor Coalition for Equal Votes (ICEV) | Progress in 2023**

Influencing pre-IPO companies

- **Speaking to company advisers about ICEV**
  We obtained the commitment of eight advisers to flag ICEV to their clients
- **Agreeing an escalation approach for advisors who have been unwilling to speak to us**
  This will help us apply a consistent approach to help reach those advisers who have so far been unwilling to speak to us, including whether public escalation might be a suitable tactic
- **Deciding on a new engagement approach for 2024**
  We established a new set of targets for our second phase of engagements with pre-IPO companies, given the likely changes to the IPO market in 2024.

  As part of this, we decided to widen the scope of our engagement targets to increase the chance of our voice being heard. We did this both in terms of the number of companies targeted and the people we reach out to at each company, which includes board members and board observers for the first time

Outcome and next steps

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

Our plans for 2024 include:

- Executing our Phase 2 engagement plan. This includes reaching out to our second group of pre-IPO companies, and following up with advisers we haven't yet spoken to, considering escalation where this might be effective
- Using the momentum of the report we published in 2023 to carry on spreading the word of ICEV and its mission, including:
  - Producing a dedicated ICEV website
  - Continuing to grow ICEV's membership
- Maintaining a proactive approach to policy engagement in priority markets. This will include advocating for disclosure-based policies around voting outcomes where this makes sense, but only as a fallback position where DCSS are allowed

How we escalate action if necessary

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

Railpen's approach to escalation may be defined by the following actions:

- Writing to the company to highlight our concerns
- Meeting with management specifically to discuss concerns
- Meeting with the Chair, senior independent director, and/or independent directors
- Expressing concern through the company's advisers
- Collaborating with other investors regarding our concerns
- Making a public statement at the company's annual general (or shareholder) meeting[11]
- Pre-declaring our voting intentions on relevant resolutions
- Releasing a press statement, either singly or jointly with other investors
- Co-filing a shareholder resolution at a company
- In extreme circumstances, advising our internal or external managers to consider selling our shares in the company[12]

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

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

Case studies 21, 22 and 23 outline examples of escalation across our listed equities portfolio in 2023.

11 *You can find the list of public statements on the Railpen website at AGM Statements.*

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

Case study 21: **Alphabet | Engaging with shareholders through a pre-declaration**

Issue

We look to use the full extent of our ownership rights to help secure our members' future. This ranges from the right to express our view on a company's behaviour by exercising our vote, through to the escalation tactic of asking a question at a company's AGM.

Ownership rights also give us the option to publicly pre-declare our voting intentions before an AGM. This escalation draws the attention of the market, clients and other companies to a specific issue. It sets expectations for investors' voting decisions. And it's a useful way to either raise public awareness, or gain commitment from senior company executives or board directors to meet with us.

We have significant exposure to Alphabet and concerns about several governance and social issues that could be financially material to the company. Alphabet is one of the world's biggest companies and so should have the investor relations resource available to meet with the breadth of its shareholder base.

Yet despite repeated attempts to engage over the last few years, and escalate, we've had no response from the company and have been unable to achieve dialogue. We understand from conversations with peers that they have similar difficulties engaging.

Objective

We aimed to encourage Alphabet to engage with us. We wanted to highlight our ongoing concerns around the social and governance issues that could be financially material to its long-term performance. We also wanted to better understand its approach to sustainability and governance.

Approach and rationale

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

In 2022, we put forward an AGM question to Alphabet that not only did not get asked, but failed to elicit even a private response from the firm, which is normally standard practice. Other escalation efforts, including repeated votes against directors, have also failed to get a reaction or enough improvement.

So, in June 2023, ahead of Alphabet's AGM and after discussion with the relevant internal portfolio manager and analysts, we issued a pre-declaration of our voting intention and the rationale behind it. Our voting intentions were:

- Item 1d – Elect Director John L.Hennessy – AGAINST
- Item 1e – Elect Director Frances H.Arnold – AGAINST
- Item 18 – Approve Recapitalisation Plan for all Stock to Have One-vote per Share – FOR

Our pre-declaration explained that we have long-standing concerns about unequal voting rights at Alphabet and their impact on financial performance. We stated that we believed unequal voting rights insulated the company's management from shareholder concerns. We believed that this, along with the other governance issues outlined above, were a factor in its approach to shareholder engagement.

We reiterated our support for a resolution to remove the dual-class share structure (DCSS) arrangement currently in place at Alphabet and replace it with equal voting rights for investors.

We also emphasised that we'd welcome the opportunity for dialogue with Alphabet and would continue to seek to engage with it, including by notifying it of our fuller voting intentions and asking questions at future AGMs.

Outcome and next steps

Having never received a response from Alphabet to our previous attempts to engage, we were able to pursue a written dialogue with them after our pre-declaration. This gave us the opportunity to probe material ESG issues such as its DCSS and any plans to strengthen its AI Principles.

Although our preference is for in-person dialogue, this is an improvement. We will seek to build on this and push for more meaningful interaction to help us achieve positive impact in members' interests in 2024. We will look to report on any progress in future Stewardship Reports.

Case study 22: **Co-filing a shareholder resolution on climate lobbying | NextEra Energy**

Issue

US-based NextEra is one of the world's largest electric utilities and is significantly exposed to the risks of the climate transition. However, if it can also seize the opportunities, we believe it can be part of the solution. Because of this, we wanted to engage with the company to better understand its approach and highlight our concerns on specific issues.

Given its climate profile and material positioning in our portfolios, NextEra is one of our Net Zero Engagement Plan priority companies. In 2022, it announced its plan for 'Real Zero', which included emissions reduction targets. It also committed to significantly increasing its use of renewable energy.

We've identified climate lobbying as a key thematic priority across our portfolios, and a priority issue for NextEra in particular. We're also part of the climate lobbying working group, a thematic activity within the Climate Action 100+ initiative. Because of this, a focus of our engagement with NextEra has been on disclosure around climate policy and lobbying.

Objective

We aimed to highlight the importance of climate lobbying disclosure, especially in a US context, and encourage improved practices. We also wanted to direct NextEra to best practice guidelines and resources on the topic.

Approach

Together with the CA100+ participants, we raised climate lobbying with the company. This included co-filing a shareholder resolution at the end of 2022 to request a public disclosure report.

By engaging constructively, we highlighted examples of peer disclosures, including the utilities companies Dominion and NRG. We shared Ceres guidance on responsible lobbying standards and the global standard on responsible climate lobbying. And we also connected NextEra with InfluenceMap, which assess corporate climate lobbying practices and disclosures.

NextEra responded well to our engagement. The company indicated it was happy to provide the disclosures we asked for, which allowed the lead resolution filer to withdraw ahead of the AGM. The company committed to liaising with the co-filers in the summer of 2023.

Outcome and next steps

Our engagement with NextEra has continued, but slowed partly because of personnel changes at the company. To escalate engagement and reflect concerns at the lack of progress, we co-filed a second resolution in 2023.

We continue to have constructive dialogue on lobbying and wider ESG issues and hope to see improved disclosure soon.

Case study 23: **Excluding companies using our Governance and Conduct Zero-Weight (Gov Z-W) process**

Issue
For 2023, we focused our Gov Z-W process on our 2022 excluded and watchlist companies. After concentrating our energies on the companies of most concern, we chose to exclude two that were on our watchlist:

i) a Brazilian meat trader and processor, and

ii) a multinational telecommunications designer and manufacturer.

(For more information on our Gov Z-W process, please see case study 12.)

Brazilian meat trader and processor
We've engaged with this company since 2018. In 2022, we put it on our watchlist due to governance, conduct and climate concerns. These included:

- Poor corporate governance practices
- Links to child labour
- Reports that the company was sourcing meat from deforested regions

Multinational telecommunications designer and manufacturer
We put this company on our watchlist in 2022 due to corruption and broader governance concerns. These included:

- A multi-class share structure
- Significant accounting controversies resulting in regulator action
- Allegations of corruption, bribery, extortion and money laundering. These resulted in dealings with the Department of Justice and an ongoing Securities and Exchange Commission (SEC) investigation

Approach and rationale
We aim, firstly, to drive change through our Gov Z-W process, and we did see some positive steps from both companies as a result of our engagement.

For example, the Brazilian meat trader appointed a Global Chief Sustainability Officer, proposed a US IPO, confirmed the scope of its zero-deforestation target, and reduced its frequency of safety incidents.

The telecommunications company also made efforts to mitigate previous conduct failings. For instance, it enhanced its internal accounting controls, conducted mandatory anti-bribery and anti-corruption training, and expanded anti-corruption risk assessments to manage risks relating to business in high-risk areas.

Outcome and next steps
However, we still had ongoing concerns about both companies:

Brazilian meat trader and processor
We found its recently proposed DCSS would enable a criminally convicted family of shareholders to control the company through 85% of the voting power, while holding 48% of the outstanding shares. In the absence of a sunset clause, the minority shareholders' ability to hold the company to account on its decarbonisation and deforestation targets would be significantly diminished.

Although there had been some progress in both these areas, we questioned the credibility of current strategies and the company's ability to comply with upcoming regulation. We were also unconvinced by the Brazilian unit's management of modern slavery risk. We had confirmation that previous plans to proactively identify cases in the Amazon region had been cancelled. Overall, we believed the ESG and reputational risk the company presented was increasingly unmanageable.

Multinational telecommunications designer and manufacturer
We found the company's DCSS placed it in a small subset of peers. Following a $1bn fine from the Department of Justice (DOJ) for foreign corruption violations, the company improved its compliance and internal accounting controls. However, a fine of $206m was issued in 2023 for breaching the deferred prosecution agreement put in place by the DOJ. On top of this, there were ongoing US DOJ, SEC and internal investigations into fraud, bribery and potential money laundering in multiple countries, and the company was unwilling to engage for a second year.

For all of these reasons, we decided to exclude both companies.

THOUGHTFUL VOTING

We believe that thoughtful voting alongside constructive engagement with portfolio companies supports our objective of protecting and enhancing long-term investment returns for members. It aligns with Railpen and the Trustee's shared Investment Belief that undertaking these activities in a meaningful and considered way "can protect and enhance investment value". 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 – in members' best interests.

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

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

Our Voting Policy

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

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

Case study 24: **2024 Global Voting Policy update**

Every year, the Sustainable Ownership team leads a post-season voting policy review. We incorporate lessons learnt from the previous year's voting season and discuss new developments and emerging topics that will be the focus for the coming year's policy.

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

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

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

The Global Voting Policy for 2024 was reviewed in Q3 2023 and published in December 2023. It included enhanced or new lines on topics including:

- Unequal voting rights, including dual-class share structures
- Late payment of suppliers
- just transition considerations
- International Financial Reporting Standards (IFRS) Foundation S1 and S2 disclosure standards

These lines will help us vote in a way that aligns with members' best interests.

We see our Voting Policy as an opportunity to highlight how we intend to vote, and to flag any changes to our engagement priorities and approach. In 2024 we'll continue to use our full ownership rights to influence for positive change and plan further escalation methods such as pre-declaring our voting intentions and asking questions at AGMs.

Case study 25: **The power of a voting signal | Our Energy Transition Portfolio and declaring how we would have voted**

Issue

In 2023 we launched a new actively managed Energy Transition Portfolio (ETP) made up of growth equities. **Please see case study 8** for more information.

Because we didn't own shares in a number of the companies in our ETP by the record date, we were not entitled to vote at their respective AGMs. However, we recognise that our vote sends an important message to a company and its shareholders.

Objective

ETP was launched with the intention of being proactive and engaged owners to try to influence companies that have a significant role to play in moving towards a more Paris-aligned future to do so.

We were keen to demonstrate the seriousness of our intention to do so, and to use all the stewardship tools at our disposal at relevant moments.

Approach

In light of the importance of the voting signal, we decided to let the majority of companies in ETP know how we would have voted at their AGM, to encourage them to engage in dialogue.

We therefore contacted companies ahead of their AGM date, indicating how we would have voted had we been fully invested. As a substitute for the inability to vote, this allowed us to create a good starting point for discussions and show that we were already highly engaged.

Outcome and next steps

Our emails generated early meetings and created a positive springboard for engagement with a number of companies. We have now followed up on these conversations by writing to the companies with our latest Global Voting Policy updates for 2024 and with a view to speaking ahead of their AGMs this year.

Voting beyond listed equity

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

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

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

External voting service providers

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

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

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

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

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

We confirm the allocation of responsibility for voting rights regularly in our monitoring and review meetings with managers, as well as receiving weekly loan reports from our Investment Operations team (please see page 69 on stock lending).

Our voting processes and use of proxy advisers

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

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

Railpen also uses the intelligence it gains from individual meetings and engagements with the company to feed into the final voting decision. Voting is agreed with the relevant portfolio managers and analysts for companies held in the Fundamental Equities strategy, along with any controversial, high-profile votes that are discussed with the Chief Officer of Fiduciary and Investment Management (COFIM).

2022 Voting Statistics

Meeting Overview

Category	Number
Votable Meetings	1,483
Meetings Voted	1,479
Proxy Contests Voted	0
Meetings with Against Management Votes	834
Meetings with Against ISS Votes	623

Number of meetings voted	1,479
Percentage of meetings voted	99.7%
Percentage of meetings with at least one vote against, withheld or abstain	56.2%

Figure 10 - Votable meetings (source: ISS 2024)

Alignment with Management

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

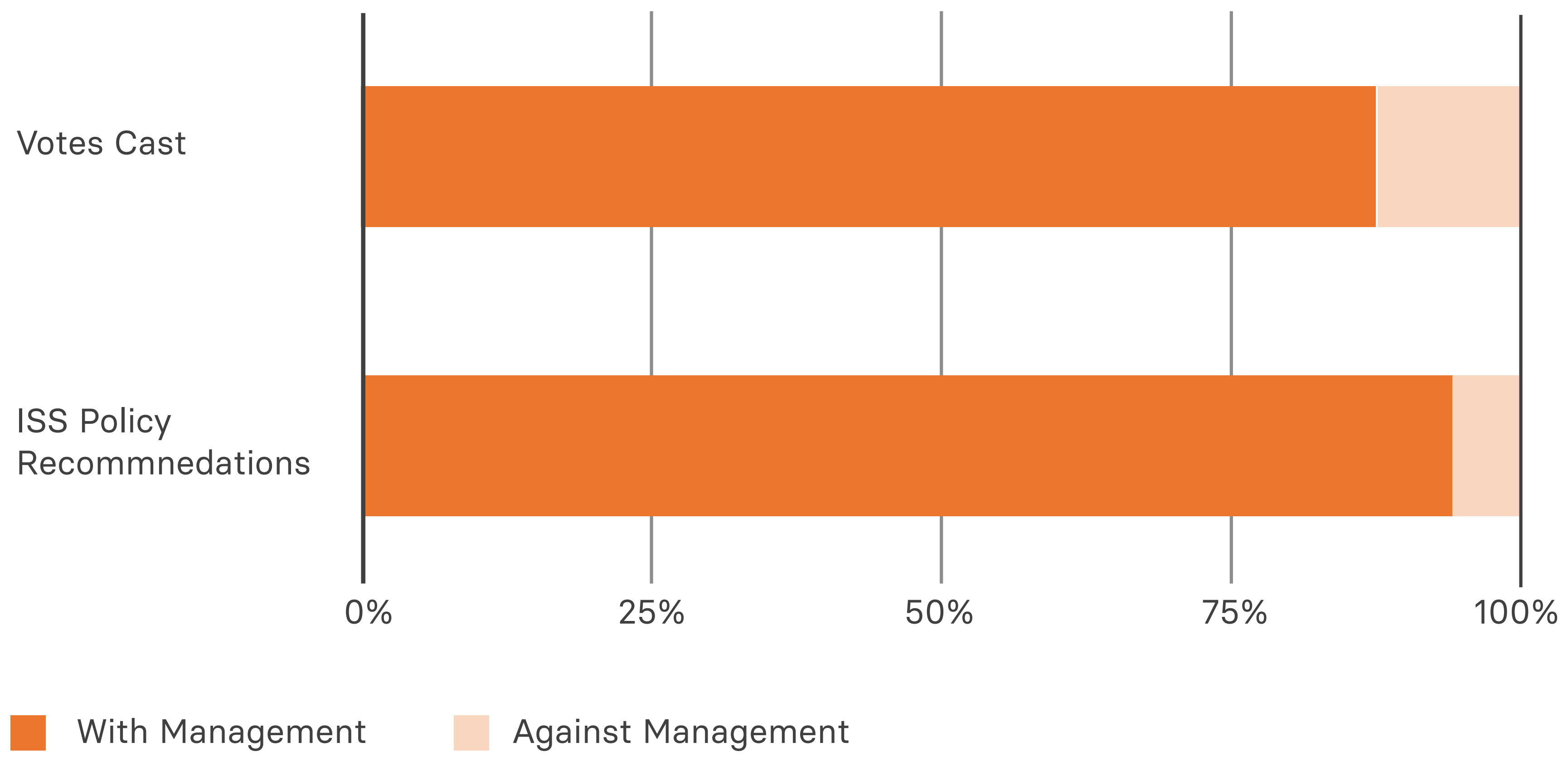


Figure 11 - Votes cast (source: ISS 2024)

Votes cast on management proposal categories

- Comparing votes cast in support of management proposals ISS Benchmark Policy recommendations across the major proposal categories provides insight into the positioning of votes on proposals submitted by shareholders against the aforementioned benchmarks.
- Votes cast during the reporting period were least in line with management on compensation matters, where only 75% of votes followed management recommendations.
- Across categories, votes cast on management proposals show the closet alignment to the ISS Benchmark Policy guidelines.

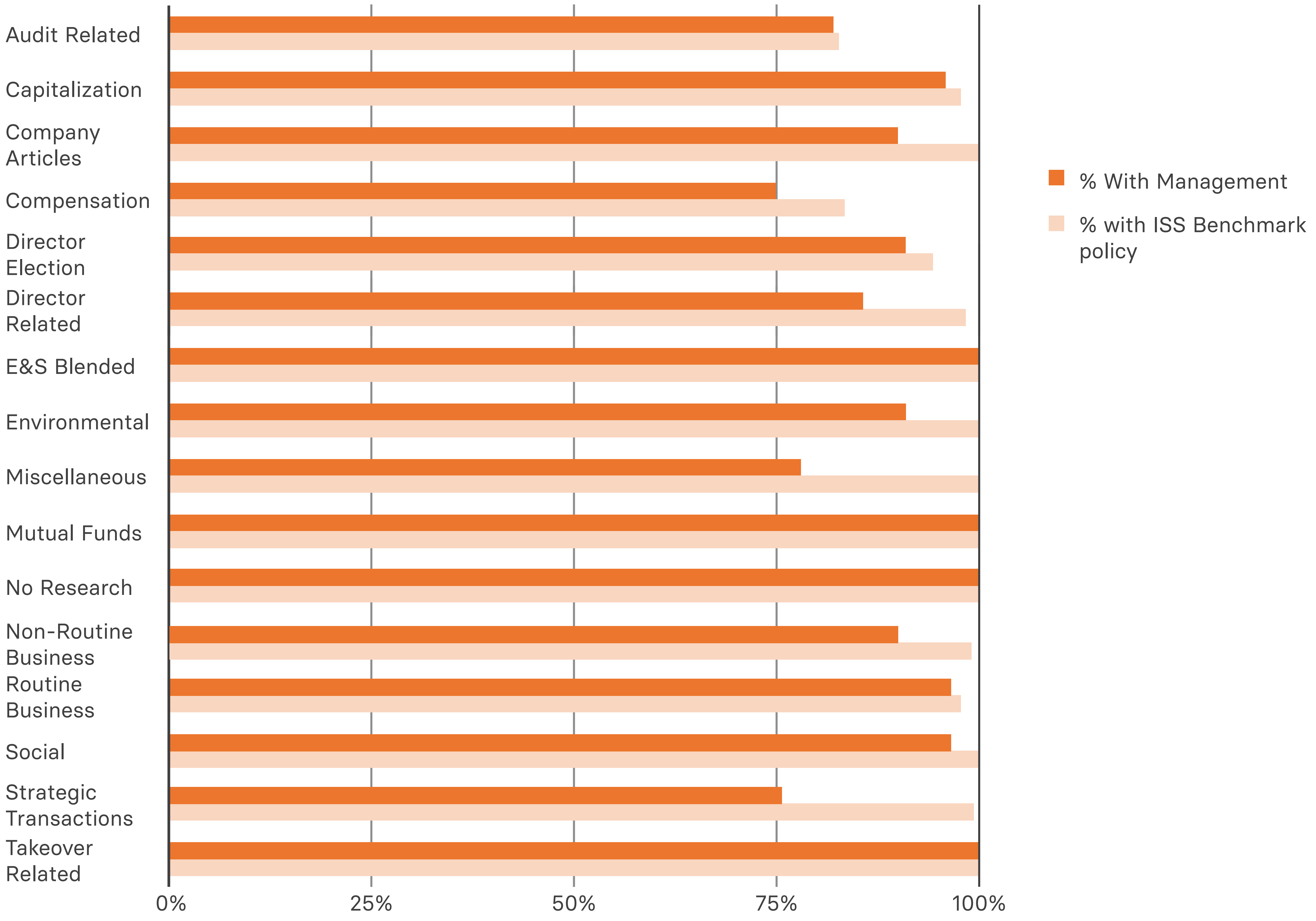


Figure 12 - Votes cast on management proposal categories (source: ISS 2024)

Votes cast on shareholder proposal categories

- Comparing votes in support of shareholder proposals, ISS Benchmark Policy recommendations across the major proposal categories provides insight into the positioning of votes on proposals submitted by shareholders against the aforementioned benchmarks.
- Votes cast during the reporting period show the highest level of support for shareholder proposals related to corporate governance, at 74% and the lowest level of support for audit-related shareholder proposals, with 7% of proposals supported.
- Across categories, votes cast on shareholder proposals show the closet alignment to the ISS Benchmark Policy guidelines.

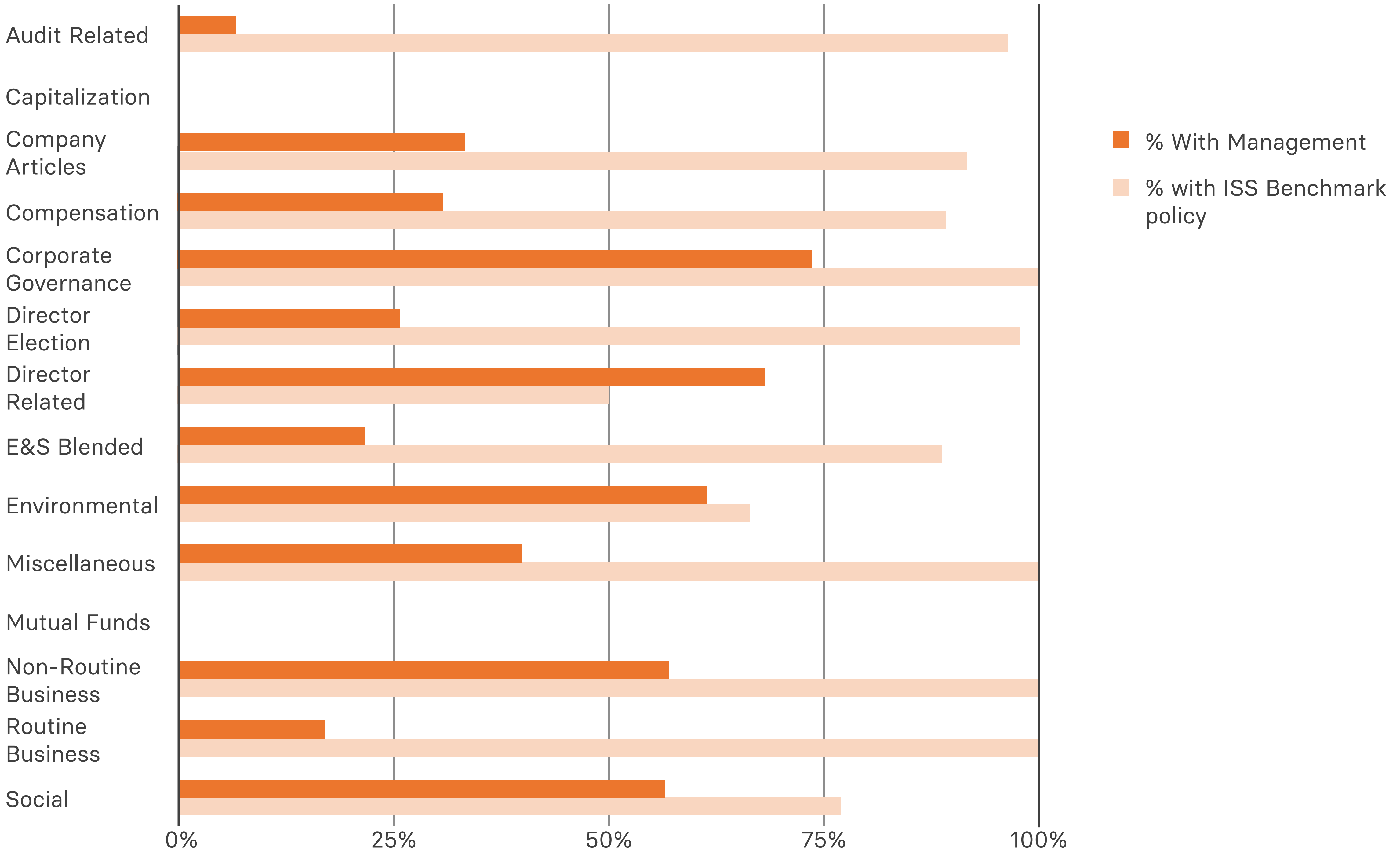


Figure 13 - Votes cast on shareholder proposal categories (source: ISS 2024)

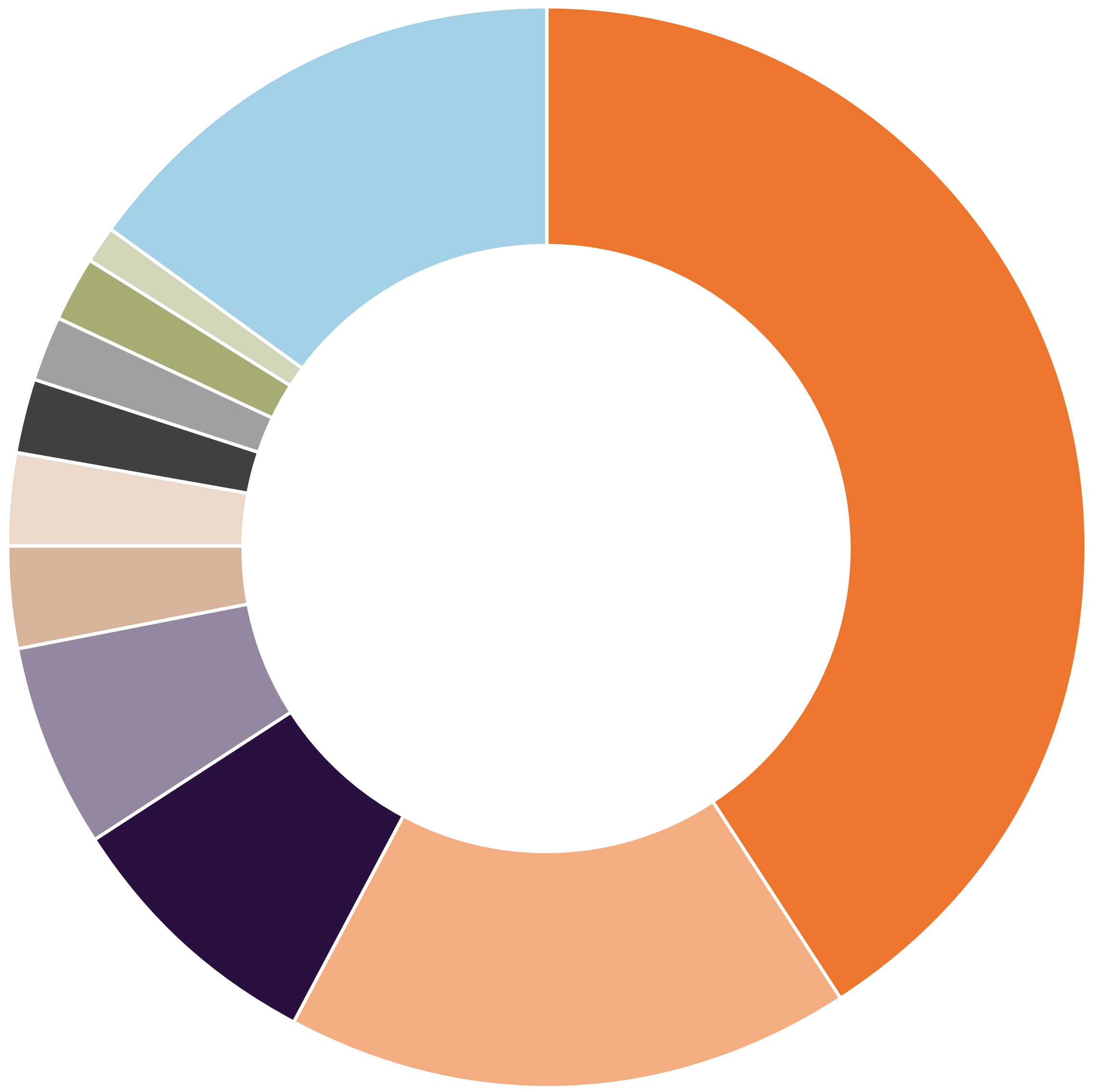
Most significant votes

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

Some votes are particularly important. In determining what constitutes a most significant vote[13], Railpen considers criteria provided by the PLSA in its Vote Reporting Template but also its own criteria that includes votes:

- At companies where Railpen holds more than 5% or the equivalent local reporting trigger
- At companies where the vote was escalated to the COFIM for decision
- On issues that have the potential to substantially impact financial or stewardship outcomes
- Against the Report and Accounts/Chair of the board
- Aligned with Railpen's priority corporate governance or sustainability themes. For 2023, these included:
  - Workforce treatment
  - Remuneration
  - Auditor tenure
  - Board composition and effectiveness
  - Climate change
  - Votes on high-profile shareholder resolutions

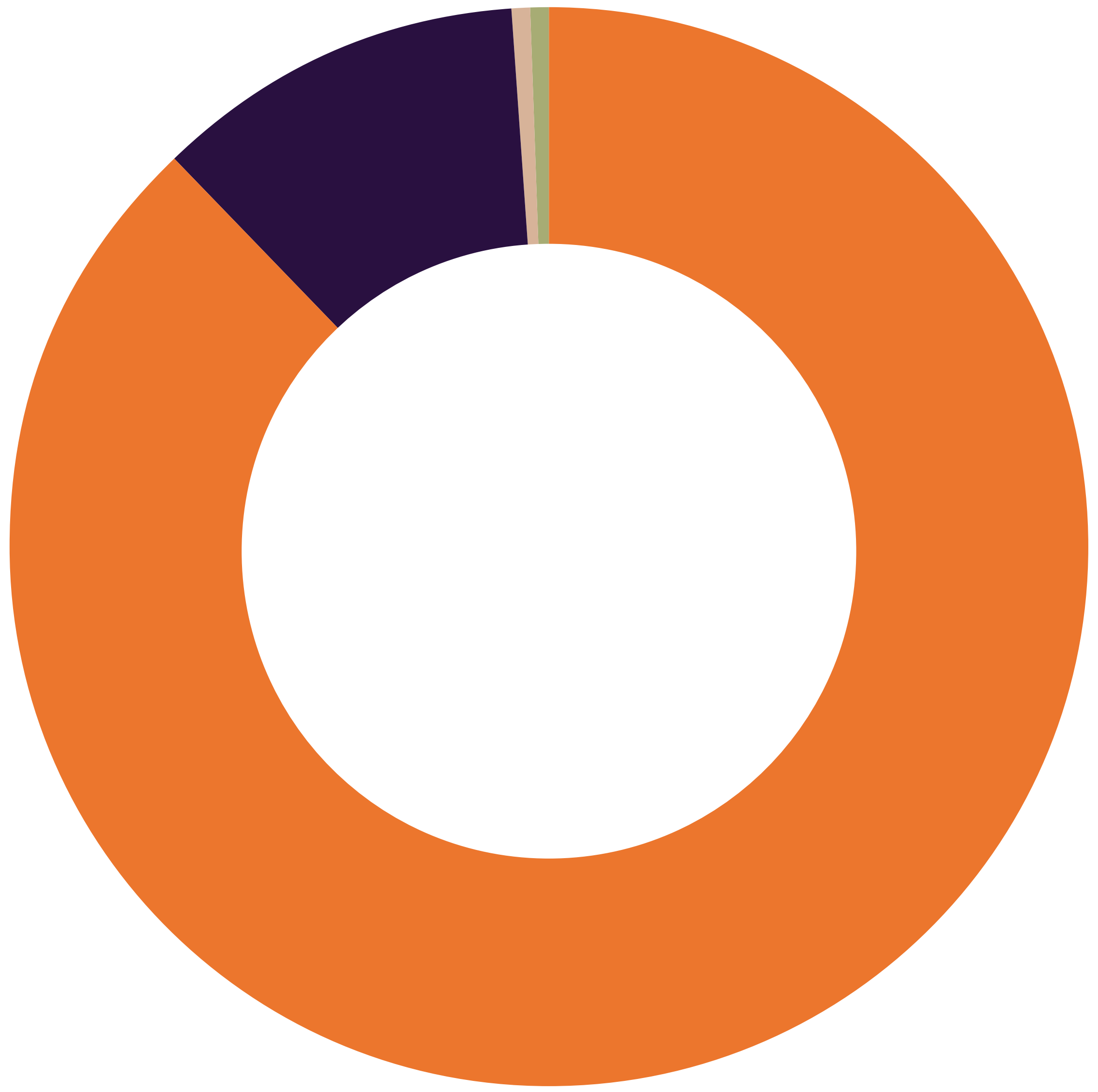
Meetings voted by market



UK	41%	Jersey	2%
USA	17%	Switzerland	2%
China	8%	Taiwan	2%
Japan	6%	France	1%
Guernsey	3%	Other Markets:	15%
India	3%		

Figure 14 - Meetings voted by market

Voting outcomes



For	88%
Against	11%
Abstain	0.6%
Witheld	0.4%

Figure 15 - Voting outcomes

[13] *Under the UK implementation of the EU's Second Shareholder Rights Directive (SRD II), both asset managers and pension schemes are required to disclose annually an explanation of their 'most significant votes'.*

Priority issue: Board composition and effectiveness

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

Case study 26: **Voting against the election of directors at a 2023 AGM | Safeguarding the interests of shareholders**

Issue

We believe in using Railpen's full ownership rights to promote positive corporate behaviour. Where a company fails to make sufficient progress towards our expectations through engagement, we will consider escalating to a vote against management at the AGM.

We voted against the directors of a Brazilian meat trader and processor, held in our Quantitative Strategies portfolio, at its 2023 AGM. This was the first step in our escalation process with the company. The company is held within Railpen's Quantitative Strategies portfolio, and we have been in dialogue since 2018. Despite progress since we first engaged, the company continues to limit its minority shareholders' rights and has yet to outline a credible climate transition plan, particularly on 'difficult to tackle' Scope 3 emissions.

Objective

In parallel with our ongoing engagement, we decided to highlight our concerns about the long-term value of our investment through voting. Our concerns related to the influence of controlling shareholders at board level, and the extent to which oversight of the climate transition plan was sufficient in facilitating progress.

Approach

We believe that non-executive directors (NEDs) and the Chair of the board are vital safeguards of the interests of shareholders. These individuals should work cooperatively with their executive colleagues, while demonstrating objective and independent judgement.

Although the independence of the company's board had increased from 44% to 78% since we began engagement, we had remained concerned by the presence of the non-independent Vice Chair and Chair. Our concerns around the influence of controlling shareholders were later exacerbated by the company's proposed introduction of a dual-class share structure (DCSS), which would enable the Vice Chair's family to increase its voting power.

We had secondary concerns around the credibility of the company's climate transition plan. Our Voting Policy outlines how we expect our portfolio companies to disclose their exposure to climate change. If we do not see enough evidence of a credible response to climate change and are concerned about the quality of oversight, we may vote against the re-election of the Chair or the director we consider responsible.

There was limited detail on the link between the company's long-term net zero target, implementation, and financial planning. Although $1 billion was allocated to emission reduction projects over the next decade, there was no:

- Clear transition plan disclosure including business model implications, transition planning activities and cost breakdown
- Impact analysis on workers and communities
- Disclosure on climate lobbying
- Inclusion of climate-related risks in accounting judgements

Outcome

The level of dissent against the election of the company's directors was 13.7%. The company has appointed a new Chief Sustainability Officer, but we are yet to see meaningful changes to the climate transition plan.

Next steps

We decided to escalate further following dialogue in 2023. We'd already held discussions with the company to confirm our expectations around labour risks and deforestation and introduced it in our new Governance Zero Weight (Gov Z-W) process. We also confirmed that the company had, owing to these broader concerns, been placed on our Gov Z-W 'watch list' of companies.

The company continued to move in a positive direction and engage with us. But, ultimately, this was not enough to satisfy our longer-term concerns particularly in light of new developments around DCSS. Following a further Gov Z-W review, we ultimately decided to exclude it. Please see case study 23 for further details of this exclusion process.

Priority issue: workforce voice and inclusion

Every company board must have oversight of workforce issues, given the materiality of a motivated, fulfilled and engaged workforce to long-term company value. We believe this is even more of a priority now as we see the continuing return to 'normal' after huge changes to working practices during, and following, Covid-19. It is particularly critical the worker voice is heard and acted upon. While we do not think there is a single 'right' way to include the worker perspective, we believe that many companies need to do much more to include the worker voice at the board level.

Case study 27: **Capita | Using our vote to support the appointment of workforce directors**

Issue

Evidence shows that an engaged workforce, and intentionally including the worker perspective in strategic decision-making and corporate governance processes, is fundamental to the long-term success of companies.

We believe appointing one or more workforce directors – a board director drawn from the company's wider workforce or employee base – has the potential to create value for the company, for two key reasons:

1. They improve the cognitive diversity of a board, providing a particularly valuable perspective, and diverse boards tend to make better decisions
2. Workers who feel they have a say in the running of the company are more engaged, are likely to feel more trust and co-ownership. An engaged workforce is financially material to company performance

But it can be a polarising issue. For most companies, particularly in the UK and US which have unitary board arrangements, considering workforce directors is a departure from normal board director practice. So, there's often a knee-jerk reaction to the idea of appointing them.

Capita PLC is one of the few UK companies to have workforce directors on its board. In previous years they had two, including one who sat on the Remuneration Committee (RemCo). However, investors had voted against the reappointment of the RemCom workforce director due to what we considered overly rigid concerns about its independence. This meant that, for the 2023 AGM, Capita had only one workforce director.

Objective

We were keen to understand how Capita approaches workforce directors and to offer our support if we felt they were approaching this thoughtfully.

Approach

During the 2023 AGM season, we launched practical guidance for companies on how to take a meaningful approach to incorporating the worker voice at board level, including the potential use of workforce directors. Please see case study 29.

At its 2023 AGM, Capita wanted to appoint a workforce director to its Audit Committee. Some of our research providers suggested this could limit the committee's independence. But although we prefer a fully independent AuditCo, we're open to rationales for other approaches.

Considering the rationale given by Capita, and our willingness to support one of the few UK companies committed to workforce directors, we decided to vote for the election of the workforce director. A meeting hadn't been possible ahead of the AGM and the guidance we published, so our vote was the first opportunity we had to directly share our view.

Outcome and next steps

We used our vote at the AGM as an opportunity for engagement, aiming to further understand Capita's perspective and consider what more it could do to align with our position on best practice. Unfortunately, Capita's workforce director stepped down at the end of the year, which is disappointing. We plan to engage further to find out why – our sense is that perhaps investors did not fully appreciate the benefits of Capita's approach to workforce directors and there may be a learning for our Coalition in future company engagements: do we need to be more vocal in our support to the market for individual companies' workforce directors where we deem the approach taken to be aligned with good practice.

Priority issue: Climate

In line with our recent Net Zero Plan, we will continue to evaluate and assess portfolio companies based on the quality and depth of their climate transition planning. We use data from Climate Action 100+ (CA100+), the Transition Pathway Initiative, Carbon Tracker and other sources to inform our climate analysis. We consider a broad range of voting outcomes when we have concerns about a company's approach, including voting against the re-election of the Chair of the Board, a Committee Chair or relevant director, and the Report and Accounts. We will consider on a case-by-case basis whether to support a climate resolution.

Case study 28: **Air Liquide | Abstaining at the 2023 AGM**

Issue
Air Liquide is an industrial gases company based in France. We identified Air Liquide as a key emitter as part of our Net Zero Engagement Plan. Therefore, we became a contributing investor of the CA100+ group that has been in dialogue with the company for five years.

Objective
We wanted to send a signal to Air Liquide that it was not meeting our expectations, nor those of the CA100+ leads. These expectations centred on the fact that the company had disclosed neither the key quantitative assumptions it used in its materiality assessment of climate risk, nor its scenario analysis.

Approach
Good climate transition plans outline concrete steps that a company will take to decarbonise its business model and adapt to a net zero future. They are fundamental to helping investors and companies work together to achieve real world impact.

Our 2023 Voting Policy states that we expect our 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. If a company's disclosures fail to meet our expectations, we may vote against the Chair, the director we deem responsible, or the Report and Accounts.

As Air Liquide is one of the top emitting companies in our portfolio, we sought reassurance that their financial accounts were consistent with their transition plan. The CA100+ group welcomed the inclusion of a climate risk narrative in the 2021 Accounts and in the 2022 Key Audit Matters, alongside broader discussions around lobbying and strategy. However, Air Liquide still did not disclose the estimates and quantitative assumptions that led to the company's materiality assessment of climate risk.

Although the absence of this quantitative disclosure is not out of line with the market, we factored in the length of this collaborative engagement, clear guidance given by the group, and the materiality of climate risks to the chemical sector.

Because of these gaps, and in alignment with the lead CA100+ investor's pre-declaration, we decided to abstain on Item 1: Approve Financial Statements and Statutory Reports. We did not vote against the Report and Accounts, nor the director we deem responsible. This was in recognition of the company's ongoing willingness to engage in constructive dialogue and the progress it has made.

Outcome
The level of dissent against the approval of the financial statement was 0.2%. It is too early to assess the effect of our abstention, and the CA100+ group's signal, because we need to wait for the next set of accounts to be published. However, Air Liquide remains engaged, and the group continues to discuss progress against its priorities.

Next steps
We will remain a supporting investor as part of CA100+. We look forward to monitoring Air Liquide's progress on climate-aligned accounts.

Vote disclosure

We've publicly disclosed our voting records for all company meetings since 1 January 2016. Since October 2018, Japanese voting records have also been disclosed via this service.

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

The Trustee's next Implementation Statement – to be published in summer 2024 – will also outline our voting behaviour in greater detail, including our 'most significant votes'. We also regularly provide case studies of votes on key issues across our member-facing communications. We believe that doing so can help members' savings feel more real to them and could help boost engagement with their pension more generally.

Stock lending

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

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

Our participation is subject to an overriding requirement that:

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

Additionally, all of our Fundamental Growth Portfolio shares are recalled in time to allow us to vote at these companies' AGMs. This will enable us to use the full weight of our vote and influence on companies where we have a significant proportion of assets and where consequently we have significant value at risk.

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

WORKING TO TACKLE MARKET-WIDE RISK

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

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

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

Our participation in thematic engagement initiatives and public policy debates is underpinned by our core values of integrity and community.

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

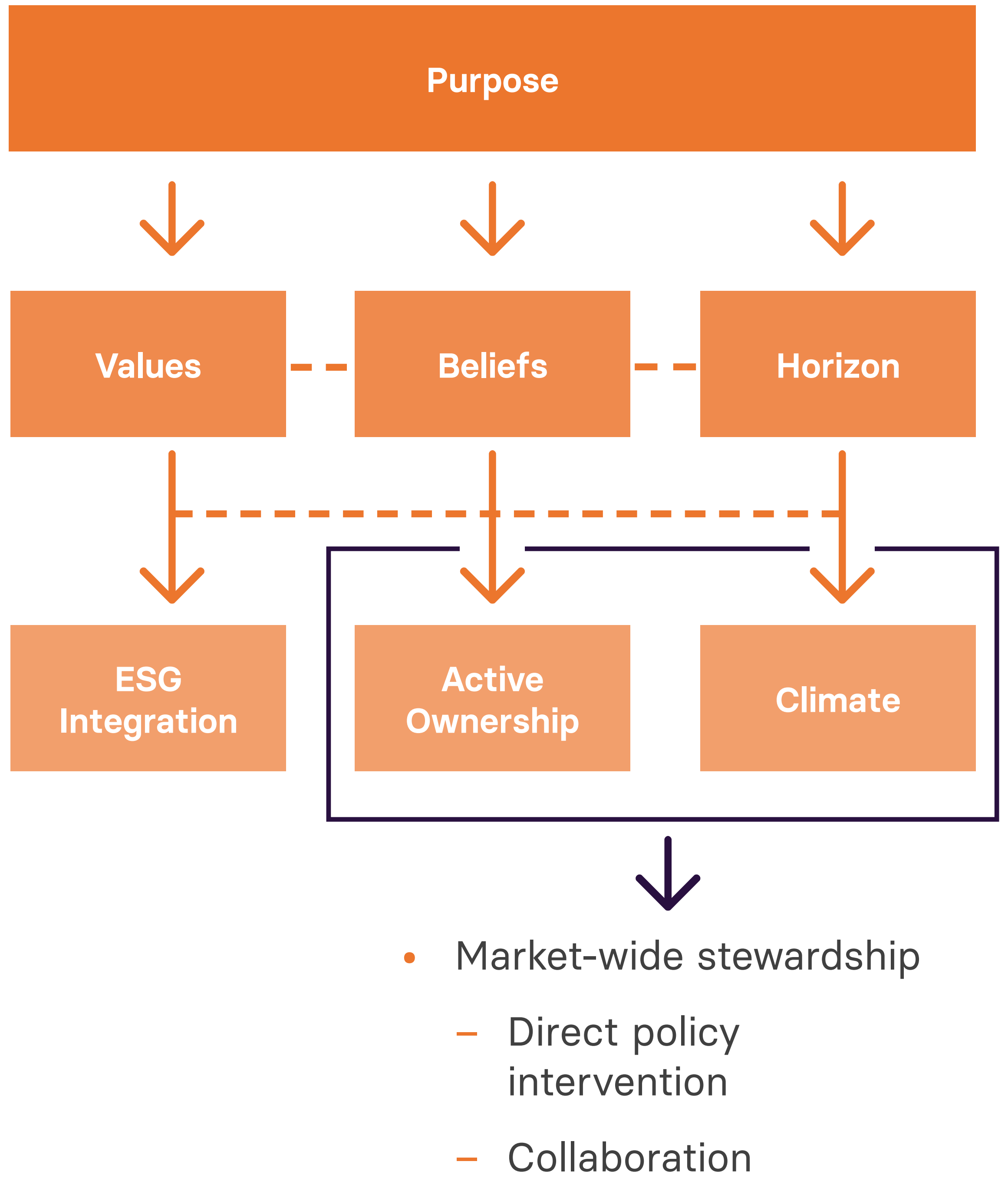


Figure 16 - How our purpose, values and beliefs drive market-wide work

Identifying material market-wide issues

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

The criteria for prioritisation include:

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

In 2023 our thematic priorities were:

- The Climate Transition
  - Net zero
  - Biodiversity and deforestation
- Worth of the Workforce
  - Fair pay
  - Employee voice and representation
  - Modern slavery
- Responsible Technology
  - Cybersecurity
  - Responsible uses of Artificial Intelligence (AI)
- Sustainable Financial Markets
  - Unequal voting rights
  - The audit market

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

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

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

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

Based on these criteria, in 2023 our public policy work focused on debates such as changes to the Minimum Standards for Audit Committees of UK companies, and the FCA's proposals to roll back investor protections through its work on the UK equity listings rules.

The following case studies provide insights into our 2023 activity on thematic, market-wide priorities, including workforce issues and shareholder rights.

Case study 29: **Our work on workforce issues in 2023**

Issue
Evidence shows that a committed, motivated and fulfilled workforce is fundamental to a company's long-term business success. However, there's a lack of clear and consistent disclosure on workforce issues – particularly on issues like worker voice and mental health (both of which are increasingly important given the worldwide upheaval to working practices and employee wellbeing in recent years).

Objective
Our work in this area goes back several years. For 2023, we decided to focus on three key areas and issues which we consider to be most in need of dedicated action:

1. Address the lack of consistent and co-ordinated focus on workforce (and broader social) issues from some in the institutional investor community. These issues are material to every portfolio company in an investment universe
2. Encourage the International Sustainability Standards Board (ISSB) to consider workforce issues in their sustainability-related financial reporting standards
3. Tackle the narrow approach to workforce engagement, including misperceptions around the appropriate role of a workforce director – a board director appointed from the wider workforce. **Please see case study 27**

Approach and rationale
We pursued our three objectives in 2023 through the following activities:

1. Working with the Taskforce on Social Factors (TSF) to help raise standards amongst pension schemes on workforce issues. The TSF was set up to help scheme trustees consider and incorporate material social issues into their investment decision-making. We worked with the TSF to produce draft guidance for the industry on how to consider social factors, apply best practice and raise standards. The final guidance was published in Q1 2024 and included two case studies from Railpen on our work on social issues
2. Responding to the ISSB's consultation to encourage them to consider workforce issues. Our response also stressed the importance of using double materiality to assess sustainability risks, rather than single materiality
3. Launching the Workforce Directors Coalition, and publishing our Workforce Inclusion and Voice: investor guidance on workforce directors. Some of our portfolio companies were asking us to give them guidance on the investor perspective on workforce directors specifically.

We worked with academics, investors and companies who already had a workforce director to produce this guidance. It contains practical steps for companies on how to incorporate the worker voice at board level, including with workforce directors.

As well as exploring worker voice mechanisms more generally, the guidance provides:

- Insights into the benefits of workforce directors
- Examples of 'what good looks like' regarding the role, recruitment and retention
- Valuable case studies giving concrete examples

We lead the Workforce Directors Coalition that launched this guidance. The coalition of investors and investment advisers together looks after £1.5 trillion assets under advice. Each investor has signed the investor statement on workforce directors. We also looked to engage with companies and interested groups, for example, by speaking to a group of FTSE 350 non-executive directors.

Outcome and next steps
Our guidance on workforce directors landed particularly well and had good traction in the industry. Although it has resulted in fewer company engagements than we would like, we plan to escalate the practice during voting season by, for example, asking questions at AGMs and using our voting powers.

The TSF guidance we published also received good feedback. In 2024 we intend to help the Taskforce raise awareness of this guidance across the industry.

Case study 30: **Campaigning against policy changes that will roll back governance standards**

Issue

Railpen has a duty to influence companies to improve corporate behaviour and drive positive financial outcomes. Being able to vote for/against a company at its AGM is vital to this. We therefore believe it's essential that all shareholders are given a fair and proportionate voice and that companies should operate with a 'one share, one vote' (OSOV) structure.

However, in its May 2023 consultation (CP23/31), the Financial Conduct Authority (FCA) proposed worrying corporate governance changes. We believed these changes would:

- Roll back fundamental investor protections, such as the right to a shareholder vote on both significant and related party transactions, as well as the equal voting rights that serve as the foundation of a fair and democratic capitalist system
- Dilute investors' ability to act as robust stewards of members' assets
- Diminish the UK's reputation as the world's leading 'quality' market and its role as a beacon for high corporate governance standards

Objective

Given the short timescales for responding, the significant consequences of the proposals and the resource challenges amongst UK asset owners, Railpen stepped up to lead an industry-wide response to the FCA's proposed corporate governance changes.

We wanted to stand up for shareholder rights and prevent them from being rolled back. Ultimately, we wanted to make sure that the UK's historically high corporate governance standards and robust investors' protections were maintained to support healthy capital markets in the future.

Approach

We'd already conceived and co-founded the Investor Coalition for Equal Votes (ICEV). Building on the knowledge this gave us, and leveraging extensive resources, we helped galvanise an industry-wide response. This saw us:

- Organise a discussion session on the implications of CP23/10 – attended by 17 UK pension funds
- Support asset owners to produce their own responses by sending our response several weeks before the deadline. We understand at least 14 asset owners submitted their own responses
- Draft and send a public letter outlining our concerns. This was signed by 10 of the UK's largest pension funds stewarding around £300 billion on behalf of 22 million members. The letter got coverage in The Times: Big pension funds attack loosening of City listing rules, the Financial Times: Pension schemes argue London listing reforms would damage City, Bloomberg: UK Pensions Criticize FCA Plan to Relax London Listing Rules and in City AM: FCA risks 'watering down' investor protection in listings push, pension schemes warn.
- Encourage and support industry bodies, both national and international, to produce their own responses. We contributed to the alignment of nine UK and international industry bodies: Investment Association (IA), British Venture Capital Association (BVCA), Council of Institutional Investors (CII), Pensions and Lifetime Savings Association (PLSA), Australian Council of Superannuation Investors (ACSI), the UN-backed Principles for Responsible Investment (PRI), International Corporate Governance Network (ICGN), the Investor Forum and the UK Sustainable Investment and Finance Association (UKSIF)
- Speak in four direct meetings with the FCA and HMT
- Draft and send a private letter signed by nearly £500 billion of UK pension scheme AUM to index providers to ask them to change their index inclusion criteria to protect asset owners should the FCA go ahead with its proposals

Outcome

We don't yet know the FCA's final response. But we do know they received an unusually high number of responses from the investor, and particularly the asset owner, community. We believe our role in coordinating the asset owner response has given the FCA real pause for thought.

Next steps

This is a tricky and entrenched issue. But because it's really material for our members, we're willing to take a leadership position and be intentional about what we do to maximise impact.

Assessment of our effectiveness in tackling market-wide risk

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

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

- An increased level of proactive media and speaking requests for our views on unequal voting rights, workforce reporting and climate change
- Steps taken by proxy advisers to more fully consider and integrate workforce metrics into their standard advice, and the tightening up of advisers' approaches to companies with unequal voting rights[15]
- Proactive requests from regulators and government officials to understand how Railpen undertakes and approaches issues including voting and net zero – this includes requests to join working groups such as DWP's Taskforce for Social Factors and the FCA's Vote Reporting Group
- Ongoing requests from membership organisations in the sustainable investment space for Railpen individuals to join their formal governance and policy-making committees, as well as ad-hoc working groups.

Railpen participation in relevant industry groups

Active participation – industry and regulatory bodies

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

In 2023, we became formally involved in a few new initiatives and industry committees where we thought we could make a meaningful contribution and achieve real change in alignment with our stewardship priorities and the Trustee's and Railpen's shared Investment Beliefs. This included our appointment as co-chair of the FCA's Vote Reporting Group.

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

Organisation	Acronym	Committee	Remit of committee
British Venture Capital and Private Equity Association	BVCA	Responsible Investment Advisory Group	Discuss and advise on best practice in private market investing in the UK
Financial Conduct Authority	FCA	Vote Reporting Group (Co-chair, Sub-group 1 and then appointed co-Chair of the wider group Q1 2024)	Discuss and support production of industry guidelines on vote reporting
Global Investment Governance Network	GIGN	Vice-Chair	Discuss US and global corporate governance and stewardship developments
International Corporate Governance Network	ICGN	Global Stewardship Committee	Discuss and produce industry guidance and support on stewardship issues
Institutional Investor Group on Climate Change	IIGCC	Co-Chair, Investor Practices Advisory Group Chair, Bondholder Stewardship Working Group	Advise on a range of initiatives, including a net zero Investing Framework, that supports investors' alignment with the Paris goals.

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

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

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

Other industry organisations – Railpen membership

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

GLOSSARY

- **Abstain:** When we vote at a company Annual General Meeting, we can vote 'in favour', 'against' or we can 'abstain'. Where we fully support a company, we will vote in favour. Where we disapprove of a company's behaviour, we will vote against. Where we do not feel fully supportive or comfortable with a company's behaviour, but also feel that voting 'against' is too strong at this stage, we will 'abstain'. This means we're voting neither for, nor against. This approach leaves us with options for the future. Please also see "Annual General Meeting" and "Voting".
- **Active (management):** An active manager chooses investments to either buy or sell, based on the objectives the manager is trying to achieve. In contrast to quantitative or passive management, there is usually a strong 'human element' involved. Either one person, or a team, will decide on individual investments. The same people might also create a broader approach that can be applied more generally to investment decisions. Please also see "Passive (management)".
- **Advocacy (or public policy):** Activities undertaken to influence policymakers and regulators. This includes meetings, roundtables, responding to government requests for evidence, either individually or through a membership body.
- **Annual General Meeting (AGM):** A meeting held once a year by a company with its shareholders, where important information is discussed and where shareholders are invited to vote on issues like how much directors should be paid, or whether the directors should be (re)elected. Most listed or public companies must hold an AGM. Please also see "Abstain" and "Voting".
- **Decarbonisation:** An organisation's approach to reducing its production of greenhouse gas emissions.
- **Defined benefit (DB):** A pension scheme where the amount of pension you're paid is based on how many years you've worked for your employer and the salary you've earned.
- **Defined contribution (DC):** A pension scheme where you build up a pot of money that you can use to provide an income in retirement. The income you get depends on factors such as the amount you pay in and for how long, the fund's investment performance and the choices you make at retirement.
- **Divestment (or disinvestment):** The process of an investor selling all a company's debt or equity instruments, if already invested.
- **Debt (or credit):** If an investor buys a debt instrument, they loan capital to a firm. This entitles them to interest from the debtor company over a fixed term until the loan is repaid. Debt can be **listed** i.e. bought and sold on an exchange or **private** (private debt) i.e. it is a loan to a private company that is not listed on an exchange.
- **Engagement:** Communicating with a person or organisation with the aim of raising an issue or achieving change.
- **Equity (share):** Buying a share (or equity instrument) gives the owner (shareholder) an ownership right/stake in the firm in return. The owner has the right to vote and a claim on future profits that can be distributed to the shareholders, for example through dividends. An equity instrument can be **listed** (or public) i.e. bought and sold on a stock exchange or **private** (private equity) i.e. it is a stake in a private company that is not listed on an exchange.

GLOSSARY

- **ESG:** The collective term for referring to 'environmental, social and governance' issues. Some examples are given below.

Environmental	Social	Governance
Climate risk	Community relations	Board structure
Carbon emissions	Employee relations	Executive remuneration
Energy usage	Health and safety	Bribery and corruption
Raw material sourcing	Human rights	CEO/ Chair Duality
Supply chain management	Product responsibility	Shareholder rights
Waste and recycling	Workforce diversity	Vision and business strategy
Water management		Voting procedures

- **ESG integration:** Incorporating environmental, social and governance (ESG) considerations into investment decisions regarding, and analysis of, the companies we invest in.
- **Ethical (investment):** Please also see "Non-financial"). Incorporation of non-financial factors into an investment decision (often leading to exclusion), to align with an individual's or organisation's definition of what they deem 'unethical' behaviour. This can include issues like alcohol, tobacco, pornography, controversial weapons or companies doing business in or with a particular country. Ethical investment is often conflated with sustainable ownership approaches (the latter focuses on ESG issues that have an impact on the financial performance of a company or portfolio).
- **Exclusion:** Not allowing the purchase of any of a company's debt or equity instrument and its inclusion in an investment portfolio.
- **Fiduciary:** A person or entity, who acts for the benefit and on behalf of another person or group of persons. A fiduciary holds a legally enforceable position of trust.
- **Greenhouse gas emissions (GHGs):** A greenhouse gas is a one that, when in the Earth's atmosphere, traps heat. Examples of these gases include carbon dioxide ($CO2$) and methane ($CH4$). The more of these gases that are produced, the more heat gets trapped within the Earth's atmosphere, leading to global warming.
- **Infrastructure:** The essential physical systems that support companies or individuals, regions or countries (economies). Examples include: communication networks, transportation systems such as roads and rail, water and sewage systems, and electricity plants.
- **Just transition:** An approach to tackling climate change which is fair and inclusive, and which does not unfairly impact workers or local communities.
- **Passive (management):** Please also see "Active (management)". An investment management style that very closely follows a market index which is an externally chosen pool of assets. Examples of a market index include the 'FTSE 100', which is a collection of the largest and most valuable UK companies.
- **Portfolio:** A collection of financial investments, which could include equities, credit or infrastructure or other investments.
- **Net zero:** Cutting greenhouse gas emissions to be as close to zero as possible and doing things that absorb carbon dioxide from the atmosphere too. Please also see "Greenhouse gas emissions".
- **Non-financial:** Please see also "Ethical (investment)". A factor that is unlikely to have an impact on the financial performance of a company.
- **Risk-adjusted returns:** A measure that takes into account how much risk is taken to achieve a particular return.
- **Shareholder:** The owner of shares (equities) in a company.
- **Shareholder resolution:** Important stewardship tool whereby a resolution is put forward by a shareholder, or group of shareholders, to a company board, asking for a matter to be voted upon at the company's AGM.
- **Signatory (signatories):** An organisation that has signed up or committed to an initiative.
- **Stewardship:** Monitoring, understanding and looking to influence the behaviour of the companies we invest in. Stewardship involves using tools such as engagement, voting and advocacy as ways to shape corporate behaviour.
- **Thematic:** A stewardship or research approach that focuses on 'big picture' ESG themes or topics i.e. issues like climate change, biodiversity or worker rights that impact the entire portfolio.
- **Voting (a vote):** Being a shareholder in a company (usually) gives us the opportunity to vote on company matters at meetings such as an Annual General Meeting (AGM). The issues we can vote on include executive pay, the election of board directors, a climate change plan, and the financial report and accounts. Please also see "Abstain" and "Annual General Meeting".

APPENDIX 1: ALIGNMENT WITH THE UK STEWARDSHIP CODE PRINCIPLES

Principle		Section of Report
1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.	Our philosophy and approach (page 5) Stewardship in the interests of members (page 17)
2	Signatories' governance, resources and incentives support stewardship.	How our structures enable effective stewardship (page 23)
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	How our structures enable effective stewardship (page 23)
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	Working to tackle market-wide risk (page 70)
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Foreword (page 3) Appendix 2 – Internal assurance (page 80) Our philosophy and approach (page 5) How our structures enable effective stewardship (page 23) Working to tackle market-wide risk (page 70)

Principle		Section of Report
6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	Stewardship in the interests of members (page 17)
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	Systematic ESG integration (page 34)
8	Signatories monitor and hold to account managers and/or service providers.	Systematic ESG integration (page 34) Thoughtful voting (page 60)
9	Signatories engage with issuers to maintain or enhance the value of assets.	Impactful engagement (page 46)
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	Impactful engagement (page 46) Working to tackle market-wide risk (page 70)
11	Signatories, where necessary, escalate stewardship activities to influence issuers.	Impactful engagement (page 46) Thoughtful voting (page 60)
12	Signatories actively exercise their rights and responsibilities.	Thoughtful voting (page 60)

APPENDIX 2: INTERNAL ASSURANCE

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

We opted for an internal review for this Report owing to the extensive expertise of our Internal Audit team. We felt that this team was better able to understand the nature of the work we do and the expectations we are required to meet, than the alternative services currently available in the external assurance market. Additional comfort with this approach comes from the changes undertaken by the Internal Audit team in 2021 and 2022 to ensure that the quality of service provided to Railpen remained at a high standard with continual improvement[16].

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

The approach for this Report

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

In line with internal audit methodology, six case studies from the report were selected for testing. Three case studies were selected by the Internal Audit team using random sampling, and the remaining three case studies were selected with the Sustainable Ownership team using an attribute sampling methodology.

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

Therefore, the following factors were considered during selection:

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

For each case study selected, the Internal Audit team:

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

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

The findings

Internal Audit was comfortable that the case studies, as documented, represent a fair and balanced assessment of the work undertaken by Railpen in 2023 and statements are supported by clear evidence. Internal Audit identified a number of enhancements to the report to ensure that the 'reporting expectations' are met, as well as providing challenge to statements and disclosures made. Following productive conversations with the Sustainable Ownership team, a number of recommendations were raised and applied within the final version of the report.

APPENDIX 3: INDEX OF PRI PRINCIPLES

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

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

PRI Principle	Mapping in this Report
Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.	Systematic ESG integration (page 34) How our structures enable effective stewardship (page 23)
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	Stewardship in the interests of members (page 17) Impactful engagement (page 46) Thoughtful voting (page 60) How our structures enable effective stewardship (page 23)
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Impactful engagement (page 46) Thoughtful voting (page 60) Working to tackle market-wide risk (page 70)

PRI Principle	Mapping in this Report
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.	Working to tackle market-wide risk (page 70) Our philosophy and approach (page 5)
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.	Collective engagement (page 51) Working to tackle market-wide risk (page 70) Our philosophy and approach (page 5)
Principle 6: We will each report on our activities and progress towards implementing the Principles.	All sections For climate change reporting, please see also the RPS TCFD Report (publication forthcoming)

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