TRACKING OUR PROGRESS AS SUSTAINABLE OWNERS

Railpen's Sustainable Ownership Review 2022 – for members of the railways pension schemes

RAILPEN

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WELCOME FROM CHRISTINE KERNOGHAN AND JOHN CHILMAN

We are delighted to present the 2022 Sustainable Ownership Review.

Sustainable ownership is our approach to incorporating sustainability issues, like climate change or executive pay, into the investments Railpen manages on your behalf. This report gives you a flavour of what we have been doing on sustainable ownership.

Together, you and your employer pay contributions while you're an active member of the railways pension schemes. These contributions are then invested in different ways, including in companies and brands you may well be familiar with. We do this to achieve the investment returns needed to give you and other members an income in retirement. You can find out lots more about your pension and how it works on your member website at railwayspensions.co.uk or bptpensions.co.uk.

We believe it is sensible to invest these contributions in companies that are well-run, and that seek to address all the risks and opportunities related to how their business works. These risks and opportunities include environmental, social and governance (ESG) issues. These could be things like climate change, such as the impact of extreme weather events on food production, or it could be a company's approach to the health and safety of its workers.

We think investing like this is the best way to protect and increase the value of your savings, giving you a good retirement outcome. Even before you receive your pension, the way we invest and manage contributions plays a major part in supporting a more sustainable future for all of us.

Buying stakes in a company gives us rights, but we believe it also gives us responsibilities. This report helps you understand:

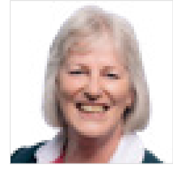
- why we think about ESG issues in our investment decisions and activities
- how we act to improve company behaviour on these issues, and
- the impact we have had on your behalf

We are not alone in this approach, and so it was great that our work on sustainable ownership was recognised in 2022 through winning awards such as the IPE Europe Awards for "Carbon and Net Zero Strategy" and "Investment Innovation" as well as being crowned "European Pension Fund of the Year" at the 2022 European Pension Awards. Several members of the Sustainable Ownership team also received industry awards for their contributions – achievements we're very proud of.

IPE & EUROPEAN PENSION FUND AWARDS 2022 WINNER UNITED KINGDOM

This report gives you an insight into ESG issues and what we did on your behalf in 2022. If you want to discover more, you can find links to other sustainable ownership documents on page 18. We've tried to make this report as easy to understand as possible, but there may be some unfamiliar words or terms. We've explained these in the glossary on page 16.

We hope you enjoy reading this year's review.



Christine Kernoghan
Chair of the Trustee Board

John Chilman
Chief Executive, Railpen

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

We're grateful for your feedback and have listened to what you said. And, as with last year's report, we've made sure this year's includes what you wanted to see. We'll continue to tell you more about what we're doing on a more regular basis, so keep an eye out for this in your usual Scheme communications.

We want to hear from you

We were pleased to hear you liked last year's report. We hope that the changes we've made to this year's report have made it even better. But why not tell us what you think? Let us know your thoughts on the issues covered here and how we've covered them at SO@railpen.com.

2022 IN NUMBERS

$2 trillion
Amount of global pension fund assets backing Railpen's 'one share, one vote' campaign for better ways to influence companies through our vote

6
Number of awards won for our 2022 work on ESG and stewardship

18%
Reduction in the greenhouse gas emissions of our investments since 2020

1,586
Company meetings where we cast votes

55%
Proportion of Annual General Meetings where we voted against or refused to support company management, or abstained on at least one resolution

99.06%
Proportion of meetings where we were eligible to vote and where we cast votes

56
Companies we are speaking to as part of our Net Zero Engagement Plan

8
Number of companies excluded from our portfolio on governance conduct grounds

96/100
Our score in the Responsible Asset Allocator Index

YOUR PENSION SCHEME AND YOU

There are four railways pension schemes:

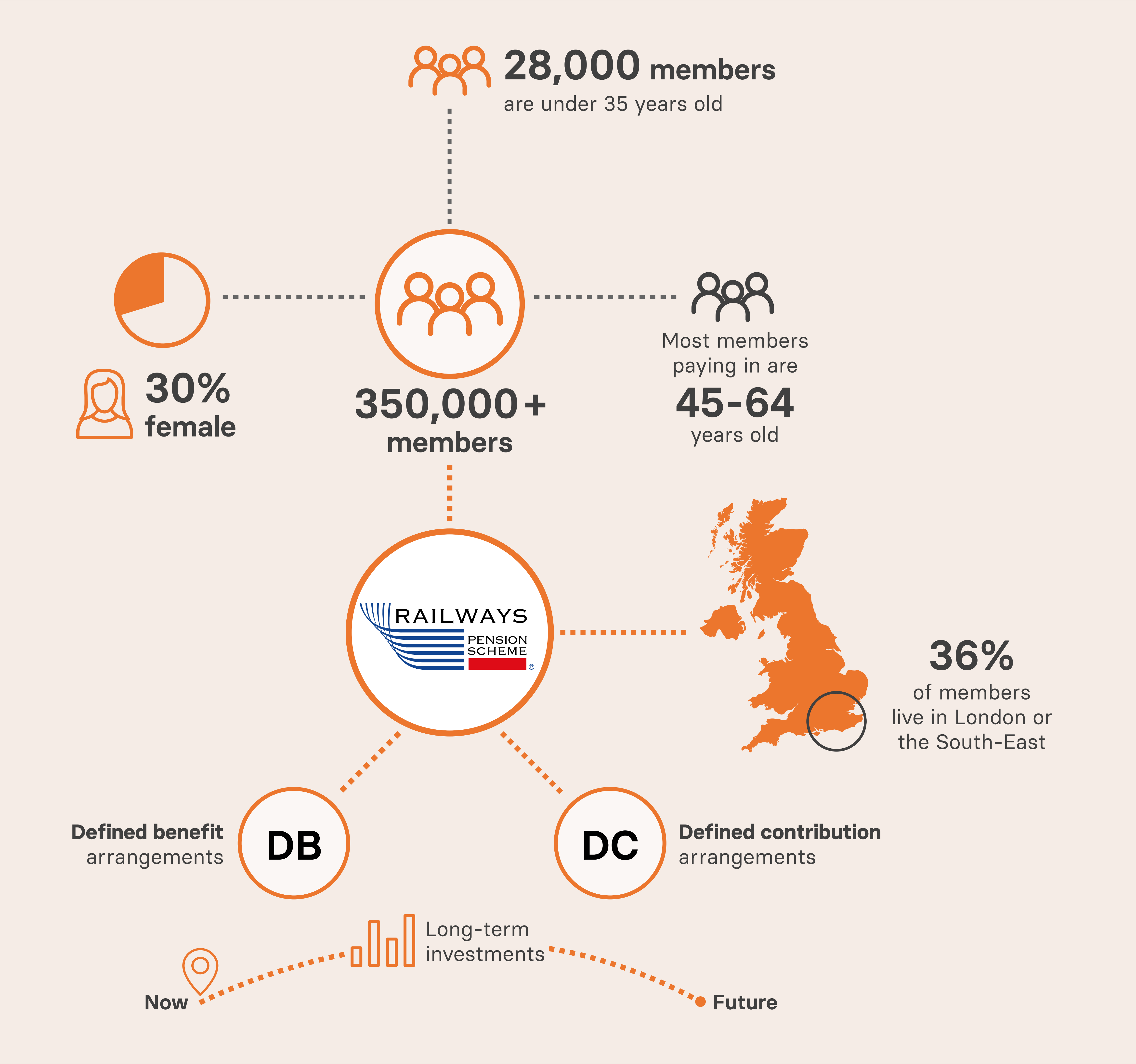
- BR (1974) Fund
- British Transport Police Force Superannuation Fund
- British Railways Superannuation Fund
- Railways Pension Scheme

The Railways Pension Scheme (RPS) is the largest of the four. It provides the pensions for over 150 companies operating within the privatised railways industry.

The railways pension schemes are managed by the Railways Pension Trustee Company Limited, known as the Trustee, which always acts in members' interests. There are 16 Trustee Directors, with eight nominated by employers and eight by members. The Trustee is responsible for deciding how the schemes' assets will be invested, and ensuring there is enough money in the schemes to pay members' pensions.

The Trustee is responsible for making strategic investment decisions. It does this by giving responsibility for managing c. £34 billion of scheme assets to Railpen (Railway Pension Investments Limited) while carefully monitoring its activities. The Trustee is Railpen's only investment management client, and Railpen is wholly-owned by the Trustee. This means all our activities are designed to secure our members' futures.

There are more than 350,000 members in the railways pension schemes. On average, 30% of all scheme members are female, with 36% of the membership living in London or the South-East. Members who are still paying into the schemes are most likely to be aged between 45 and 64. But we also have about 28,000 active members who are 34 or younger. We offer both Defined Benefit (DB) and Defined Contribution (DC) arrangements for members, and with so many new and young members joining our schemes every day, we need to invest with long-term interests in mind.



WHY DO WE INVEST YOUR MONEY SUSTAINABLY?

The Trustee's mission is to pay members' benefits securely, affordably and sustainably. Railpen helps achieve this by investing in companies to protect and grow the value of these investments.

We believe that well-run companies treat their suppliers, customers and workers fairly. Great companies can adapt their business models to deal with major threats or issues, such as the Covid-19 pandemic, climate change or an ageing population. We believe these companies will be most likely to do well in the long term.

To make investment returns, we need to take some risks. We believe we get better risk-adjusted returns on our investments when these companies succeed. 'Sustainable ownership' is our name for the way we think about, and act on, environmental, social and governance (ESG)[1] issues in our investment decisions. Through Railpen, the railways pensions schemes are among the few UK pension schemes to have a specialist in-house team dedicated to 'doing' sustainable ownership on your behalf.

The Sustainable Ownership team follows the Trustee's beliefs, principles and objectives for investments. We apply sustainable ownership principles to all our investments. These might include:

- companies listed on a stock exchange - these are called 'listed equities'
- infrastructure assets, like energy or telecoms, or
- private debt - this is lending money to companies that aren't yet listed on a stock exchange

As members across the railways pension schemes continue to face cost of living challenges, it is more important than ever that the Trustee and the Railpen team work together to deliver the returns members need to secure their income in retirement.

This means we must continue to invest in companies best placed to succeed over the long term. Evidence shows that in order to do so, companies need to make sure their business models withstand the sustainability challenges that will crop up in the decades ahead.

As the Trustee Board lead on sustainable ownership, I will continue to work hard to ensure our members remain at the heart of everything we do.

Peter Holden,
Trustee Director

[1] *You might read about 'ESG' or 'ESG investment' a lot in the personal finance pages of most newspapers. We also provide a glossary at the back to explain this and other frequently used terms.*

Sustainable ownership makes a positive difference to a company's financial performance

We don't just think about ESG factors when we're making investment decisions, but they can be very useful when we put them together with financial and other data.

Evidence shows that ESG issues are linked to more 'traditional' ways of measuring how a company performs. These include how efficiently it operates, sales growth, risk management and challenges in its particular industry. This is why it is important for us to consider ESG factors when making investment decisions, so that we invest members' money wisely.

For example, later in this report, we talk about 'corporate governance' – the 'G' in ESG. Good governance means a company is well-run by expert and honest senior managers, who are diverse both in composition and in their thinking. They have strong systems and processes in place.

A well-run company, that we think has good governance practices, can get better terms of finance. It is more likely to avoid having to spend a lot of money dealing with interventions by industry regulators. Research also shows that specific measures of good governance, such as a company board with a diverse range of people, are connected with better financial performance and lower risk.

We explore the evidence on the link between ESG issues and financial performance in our 2022 paper 'SO Insights: Why we integrate ESG'.

Our Top 10 Holdings in 2022

Our largest, internally-managed investments at the end of 2022 were in the following companies:

Company	Country	Sector	£m (31 December 2022)
Visa Inc	US	Industrials	243
Texas Instruments	US	Technology	202
UnitedHealth Group Inc	US	Health Care	188
Novo Nordisk A/S	Denmark	Health Care	184
NextEra Energy Inc	US	Utilities	182
Gilead Sciences Inc	US	Health Care	174
Roche Holding AG	Switzerland	Health Care	169
Nestle SA	Switzerland	Consumer	165
Accenture PLC	Ireland	Professional Services	165
Thermo Fisher Scientific Inc	US	Health Care	165

We're focusing on four priority ESG themes

We regularly talk to companies about the ESG topics that are specific to them. However, we also focus on major ESG issues that affect either all or many of the companies we invest in. We call these ESG "themes", and examples include climate change, fair pay, and cybersecurity. Our priority ESG themes for 2022 and for the next few years are below.

Climate Transition

- Achieving net zero by cutting greenhouse gas emissions to as near zero as possible, and working to absorb remaining emissions from the atmosphere too
- Protecting the huge variety of wildlife on Earth (biodiversity)

Worth of the Workforce

- Ensuring workers get treated fairly by employers
- Paying workers a fair wage
- Eliminating modern slavery from companies' operations

Responsible Technology

- Ensuring unfair bias is eliminated when using Artificial Intelligence (AI)
- Preventing cyber-attacks and breaches of companies' digital security

Sustainable Financial Markets

- Supporting company structures which allow investors' voices to be heard
- Enabling high-quality company reporting which gives an accurate picture of a company's financial health

WHAT WE DID ON YOUR BEHALF IN 2022

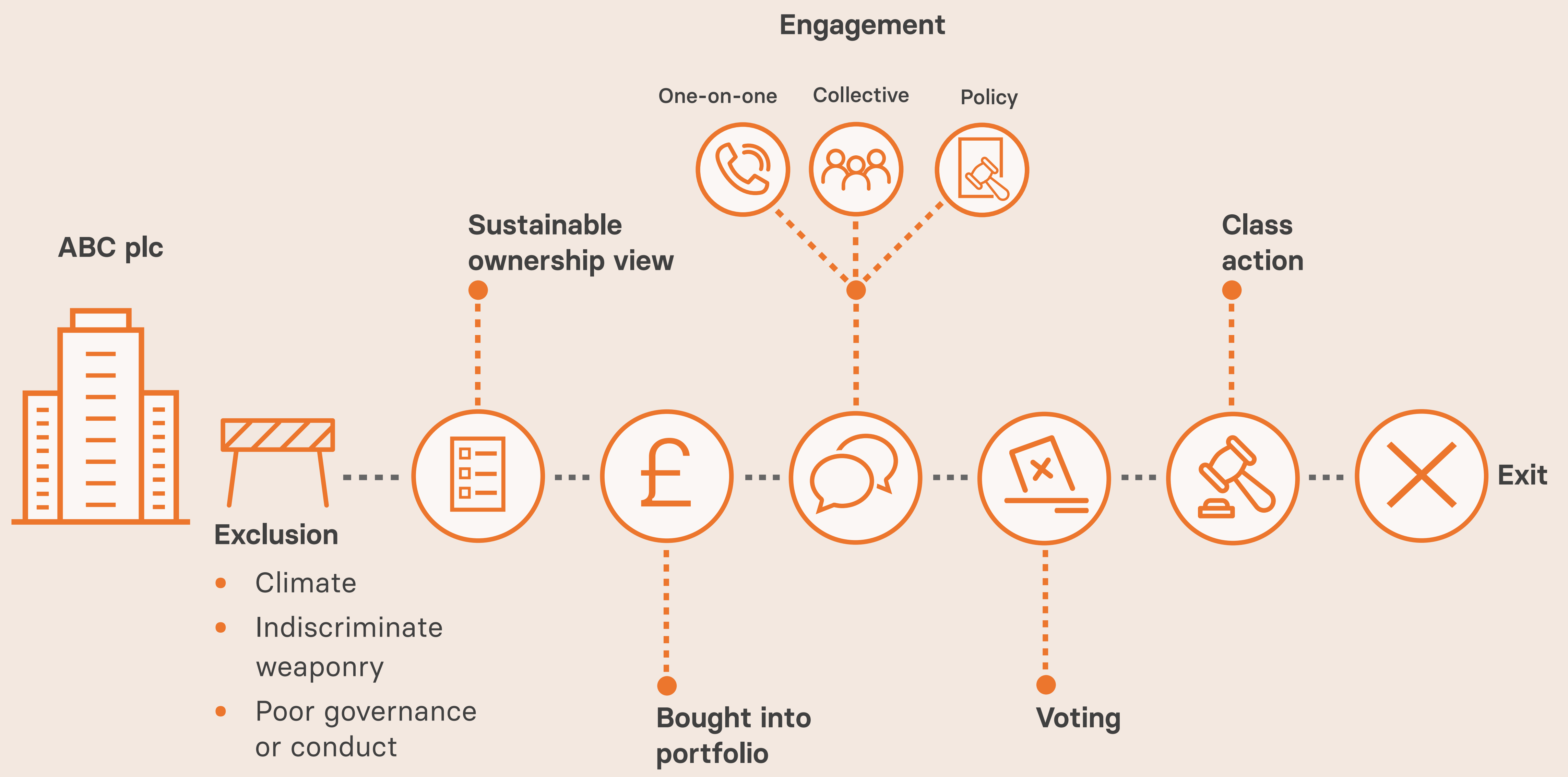
We do everything we can to encourage companies to act responsibly and address the impact of governance and sustainability issues, not only on their business operations, but also on the world into which our members will retire.

We can do this in a number of ways:

- We speak to companies privately, either individually or together with other investors. Investors call this "engagement". Please see case study 1.
- We make our concerns public. We can do this, for example, by using our vote at company Annual General Meetings (AGMs), to publicly express either support for, or disagreement with, a company's senior management or board. We can also ask questions publicly at a company's AGM, which forces them to give us a response in public too[2]. Please see case studies 2 and 3.
- We discuss our views and push for change, where necessary, with politicians, government officials and regulators. We do this to understand how laws and regulations might be changed to support companies and individuals to make sustainable choices. Please see 'Our plans for the next 12 months'.
- We remove companies from our portfolio, if already invested in them. We might do this if we feel that their behaviour is not improving as quickly as we'd like, or we might think the level of environmental, social or governance risk posed to the portfolio is too big to manage. This is known as 'divestment' or 'disinvestment'. We can also refuse to invest in the first place. This is known as 'exclusion'. Please see case study 4.

[2] *A full list of the questions we have asked at AGMs each year can be found at AGM Statements (railpen.com).*

Opportunities for sustainable ownership influence over the lifecycle of an investment



The infographic above explains how, and in what ways, the Railpen team may seek to have an influence on sustainable ownership issues at portfolio companies.

In the rest of this section, you'll find some case studies on the issues that we know matter most to you. Further details and more case studies can be found in our 2022 Stewardship Report.

We want companies to treat their workers fairly

You continued to say that fair treatment of workers was one of your top ESG concerns in our 2022 member survey. We believe that how well companies treat their employees is critical to their long-term success. Railpen has long worked with companies to understand how they look after their employees and make sure they are motivated, skilled, safe and happy.

Case study 1 - Our work on workforce and worker voice issues in 2022

The issue

The global pandemic put workforce treatment in the spotlight. This highlighted a big difference in the quality of information that companies give investors, like Railpen, about how they look after, speak to and hear from their workforce. Investors need this information to be able to fully understand what a company is doing and assess its level of ESG risk.

In last year's report, we discussed how we worked with companies to improve the information they provided. In 2022 and 2023, we wanted to build on this work to address the following issues:

1. Confusion amongst companies regarding what 'good' workforce information and workforce treatment looks like
2. A narrow and outdated approach to engaging with workers
3. A lack of consistent focus from some other UK investors on workforce issues

What we did

We often try to achieve change on the same issue at lots of similar companies. But sometimes that issue hasn't been fully explored and there's still some confusion. We look to provide helpful, practical support to companies, as well as other investors.

On workforce issues, we worked to do this in a few ways over the last year:

- **Workforce reporting**: Together with major investor and company bodies, we provided good practice examples on workforce reporting from UK companies. This gave our portfolio companies something concrete they could take inspiration from.
- **Workforce inclusion and voice**: We gave companies and investors guidance on how to listen to workforce and worker voices. This included support for companies on when and how to appoint employees to their boards.
- **Public policy**: We joined the UK government's 'Taskforce on Social Factors' (TSF) to help produce guidance for pension schemes on considering social issues such as workforce treatment in their investment strategies.

What has changed as a result

Workforce reporting: We have achieved some progress so far. Several of our portfolio companies have made improvements to the information they provide on workforce treatment after we sent through our guidance and discussed it with them.

Workforce inclusion and voice: We've also been pleased at the reception to our guidance on worker voice. Eight other large UK investors, covering around £400bn of assets, committed to work with us to encourage companies to take a more thoughtful approach to engaging with their workforces.

Public policy: It is too soon to say what the impact of the TSF's work will be. But we have been pleased to contribute to the guidance, which is not yet published. We hope it will be helpful to other schemes considering how to address workforce and other social issues in their investments.

Climate change

The effects of climate change, such as rising sea levels, ocean acidification, extreme weather and droughts, are already having an impact on people's lives and livelihoods around the world. Experts recommend limiting global temperature rise to 1.5 degrees above pre-industrial levels, to avoid the worst impacts – including economic and financial impacts. It is a priority for us to work towards a 1.5-degree world[3], whilst ensuring we generate the investment returns required to meet our members' pension objectives.

Where possible, we prefer to remain invested in companies, retaining our stake so we have a voice to improve company behaviour. In some cases, however, we think that climate-related business risks are so extreme that we choose not to invest at all. The railways pension schemes were some of the UK's first pension schemes to divest from companies on climate grounds[4].

Case study 2 - NextEra Energy – working together to make a difference on climate change

The issue

NextEra Energy Inc. (NextEra) is one of the largest US-based utility companies. It is held within our internally managed, actively-run portfolio and is a high emitter of greenhouse gases.

Sometimes, it is easier to influence a company by working together with other organisations with the same view. This gives us a bigger 'voice'. We speak to NextEra on climate change both individually and together with other investors through a coalition called Climate Action 100+ (CA100+).

NextEra had made positive progress during our discussions. It had announced its plan for emissions reduction targets and aimed to increase spending on renewable energy. However, we know that how companies try to influence, or 'lobby', the policy and regulatory environment on climate change issues can show how genuinely committed they are to tackling them, given the important role laws and policies play. We wanted NextEra to provide more detailed information on their 'climate lobbying' approach.

What we did

When we try to influence companies, we have many different things we can do. This includes using our voting rights at a company's Annual General Meeting (AGM), speaking to a company or helping to shape policies and laws.

It also includes using some of the formal, legal processes at company AGMs such as filing a shareholder resolution to create a bit of noise on an issue and really grab a company's attention. A shareholder resolution is a proposal that shareholders put forward to be voted on at an AGM, asking the company to take some sort of action. This is what we decided to do at NextEra. We co-filed a resolution, alongside other CA100+ investors, on climate lobbying at their 2022 AGM for exactly these reasons.

We also sent NextEra resources on what good climate lobbying disclosure looks like to help it produce its own.

What has changed as a result

After we co-filed the shareholder resolution, we had positive talks with NextEra and shared further guidance on global standards on responsible climate lobbying. In our initial discussions, NextEra said that it would use these insights to shape internal discussions.

We were also delighted that, in early 2023, NextEra committed to publish a further trade association report later in the year. In light of this commitment, our investor group decided to "withdraw" the resolution. This means they agreed not to put the resolution to a vote at the AGM. We expect that better disclosure means we will be able to understand and encourage NextEra to consider its approach to climate lobbying.

[3] *'Pre-industrial' is generally defined as the average global temperature before the start of the Industrial Revolution in the 1700s.*

[4] *Further information can be found in the Railways Pension Scheme's [2022 Taskforce on Climate-related Financial Disclosure (TCFD) report](#).*

Fair pay

How, and how much, a company's senior management is paid can be a powerful force in shaping both their behaviour and the decisions they make. We believe that company executives should be paid in a way that matches their interests with those of their stakeholders. 'Stakeholders' includes shareholders like the Trustee and Railpen, but also employees, customers and suppliers.

We also think that paying the workforce fairly is vital if workers are to continue to be motivated and engaged in their jobs. We raise our concerns privately and publicly, if we see big pay gaps across characteristics such as gender. We'll also do this if senior management's bonus packages and salaries have been protected from poor performance in a way those of the rest of their employees' have not[5]. We think that fair pay is a particularly important issue to speak to companies about in light of the cost of living challenges in the UK and elsewhere.

Case study 3 - Company A and fair pay

The issue

Company A – which we cannot name for confidentiality reasons – is a logistics company, held in one of our externally managed passive equity funds. We were reviewing the company ahead of its Annual General Meeting and deciding how we might vote. We noticed two issues with its approach to paying its senior executives:

- The amount of pay being proposed for the CEO and other executives was high, compared to the pay for executives at the same level at similar companies.
- The CEO was in a final salary pension scheme where the company was paying a high level of contributions compared to not only those for similar roles at similar firms but also to the rest of the firm's employees.

What we did

Railpen has the right to vote on various matters relating to the management and policies of many of the companies it is invested in. This includes supporting, or refusing to support, a company's remuneration approach. This is how much company executives should be paid in salaries, bonuses and other rewards.

We believe that excessive pay and rewards for top managers are not right if they are not proportionate. We don't think it's fair if executive pay is out of line with how the rest of a company's employees are rewarded. This includes where senior executives are getting a pension that is much better than those of other employees.

So we voted against the remuneration report, in a public display of our concerns.

What has changed as a result

Overall, shareholders voted to approve the remuneration approach, but an unusually high number of shareholders – alongside Railpen – voted against.

A similar issue occurred at the 2023 AGM, with Railpen once more voting against the company as no change had taken place. Should our votes against still not have an impact, we will be looking to escalate with further sanctions – such as more serious and widespread votes against individual directors – in future years.

[5] *We chose to warn companies of our expectations on fair treatment of workers during COVID-19, including how they are paid, in our 2021/22 public Global Voting Policy update. We will report more on our activity on COVID-19 in our 2021 Stewardship Report.*

The importance of companies being well-run

The term "corporate governance" represents the 'G' in ESG. It may sound boring, but it is really important, because this is how the companies we invest in demonstrate that they are well-run. We want a firm's senior executives to be:

- expert, diverse and honest
- listening to their long-term investors, and
- supported in making good decisions through having the right systems and processes

We talk about corporate governance a lot at Railpen. Whether a company is well-run is one of the most important factors in whether it performs well, and acts to counteract environmental and social issues. When we held focus groups with some of our pension scheme members, they told us this was one of the areas that mattered most to them.

Case study 4 - Olympus Corporation – improvements in governance

The issue

Railpen has a process to identify companies whose governance and behaviour are of concern to us.

Our process picks out companies where there are 'red flags' around governance – the system of rules, practices and processes by which a company is controlled. These are risks that we think might end up becoming a reality in the future.

The process identifies companies that we want to talk to about their conduct. It can also lead to us excluding companies. This happened with Olympus Corporation, a Japanese optics and medical devices manufacturer, in 2019. We excluded Olympus because of concerns about health and safety practices, as well as the quality of the oversight of its senior executives.

What we did

Olympus remained on our exclusion list in 2020 as we did not feel it had made sufficient progress on our priority issues.

In 2022, we got in touch again with Olympus to learn about the progress it had made in this area in light of our previous conversations. A meeting was held and we had more discussions over email.

What has changed as a result

We learned from our analysis and our discussions that, since our initial exclusion in 2019, there had been improvements. The company Board had greater independence, including an independent Chair. There had been a move to a three-committee structure. These moves are likely to lead to better oversight, scrutiny and challenge of the company's executives by the Board.

We were also pleased to hear about improvements in governance and oversight of the supply chain, including clear and concrete plans to meet external accreditation standards.

We felt that senior executives now had a clear understanding of the problems as they talked honestly about how things had gone wrong in the past and how they were going to fix these issues.

In light of the progress made, we decided to remove Olympus from our exclusions list i.e. we may now invest in it in the future. We informed the company of our decision, as well as explaining our thinking behind it.

OUR PLANS FOR THE NEXT 12 MONTHS

While Railpen has been successful in its work on sustainable ownership, including some award wins in 2022, we are always trying to do better and work harder on your behalf. This section gives you a peek at some of the things we are working on over the coming year to help achieve our purpose of securing our members' futures.

We will push for positive policy change

There are several ways we can influence companies to improve their behaviour. We have mentioned many of them here. They include:

- excluding a company from a portfolio
- voting in favour of or against a director, and
- meeting with a company to share our views

We also think that influencing the policy and laws of a country that affect how a company is structured, or how it considers ESG issues, can be powerful.

This is why we dedicate some of our time each year to speaking to policymakers. 2023 and 2024 will likely see many important policy discussions on ESG topics. This is in light of the growing climate emergency, increased focus on workforce issues and some high-profile corporate scandals. We push for positive policy change where we think it will make a difference to outcomes for members of the railways pension schemes. For instance, in 2023, we worked with other pension funds to express our concerns at a regulatory proposal that would make it harder for us to influence companies to achieve good outcomes for members.

We also believe that our size means we have a responsibility to support other pension schemes on their own sustainable ownership work. This includes how they make the most of the different tools in their stewardship toolkit. It is why we will be publishing guidance, with a leading industry body, that will provide practical advice for investors who want to better understand how to influence policy discussions.

We will continue to deepen sustainable ownership across the portfolio

Please see the Glossary for explanation of the different asset classes.

It can be easy to be distracted by the noise and headlines on environmental, social and governance issues, so Railpen works hard to focus on what matters. We concentrate on sustainable ownership issues that will make the biggest difference to your retirement. We have also historically concentrated our sustainable ownership work on those asset classes – such as public equity – where we invest most money.

However, as well as the 52% of our investments allocated to listed equity, we have:

- 21% allocated to private market investments, including infrastructure investments such as wind farms, and
- 20% allocated to fixed income or debt instruments[6]

We have already been working to deepen our approach to sustainable ownership across several of these asset classes, and we will continue to do so in the next year. This includes gathering more information on greenhouse gas emissions from some of our infrastructure portfolio. We will also lead industry collaborations on how to influence companies where you hold a bond (or loan) as opposed to an equity stake.

You can find out more about some of our existing work on sustainable ownership in our infrastructure fund here.

We will keep talking to you, our scheme members

We have several ways that help us understand members' views on sustainable ownership issues. We speak to the Trustee, as well as to representatives on Pensions and Management Committees and our Sustainable Ownership Client Forum[7].

In 2022, we also spoke to members directly through an online survey. We will be carrying out the survey again in late 2023, as well as holding some face-to-face groups in early 2024. We do this to understand your views on the issues that matter most, how you want us to talk to you about them, and whether your feelings have changed in the last 12 months.

Feedback from previous surveys has, for instance, been used to shape how and when we communicate our sustainable ownership work to you.

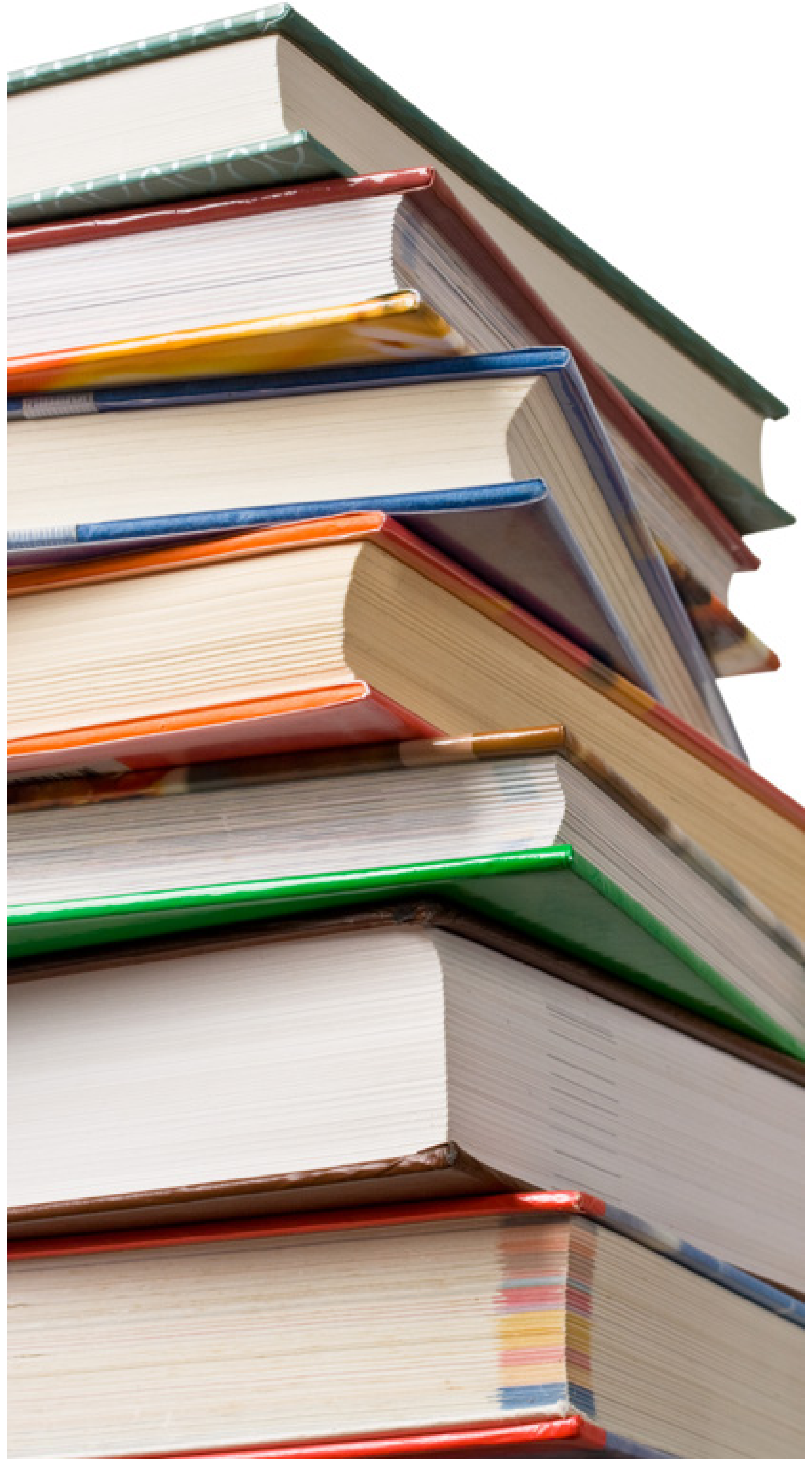
We'll let you know how you can get involved via your member website and your usual member communications.

[6] *Figures correct as at 31 December 2022.*

[7] *Further details of how and when we speak to these different bodies can be found in our 2022 Stewardship Report.*

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 opportunities to go further 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 they are trying to achieve. 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, and 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'.*
- **Asset class.** A group of financial instruments which have shared behaviours, characteristics and types of risks. Such groupings include *'equities'*, *'debt'*, *'infrastructure'* and so on. Investors like Railpen will usually spread their investments across different groups of asset class, to help manage risk, although the precise proportion of money allocated to any one grouping will change over time. Please also see *'Equity (share)'*, *'Debt (or credit)'*, *'Infrastructure'* and *'Private markets (or private assets)'*.
- **Class action.** Lawsuits in which a large group of people collectively sue another party. A common example of class action cases is securities class actions. This is where investors who believe the value of their investments has been damaged by improper conduct on the part of company executives or board members aim to recover their financial losses.
- **Decarbonisation.** An organisation's approach to reducing its production of *greenhouse gas emissions (please see 'Greenhouse gas emissions (GHGs)').*
- **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, for example through dividends. An equity instrument can be **listed** (or public) i.e. bought and sold on a stock exchange or **private** (private equity) i.e. it is a stake in a private company that is not listed on an exchange.
- **ESG.** The collective term for referring to 'environmental, social and governance' issues. Some examples are given below:

  Environmental
  - Climate risk
  - Carbon emissions
  - Energy usage
  - Raw material sourcing
  - Supply chain management
  - Waste and recycling
  - Water management

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

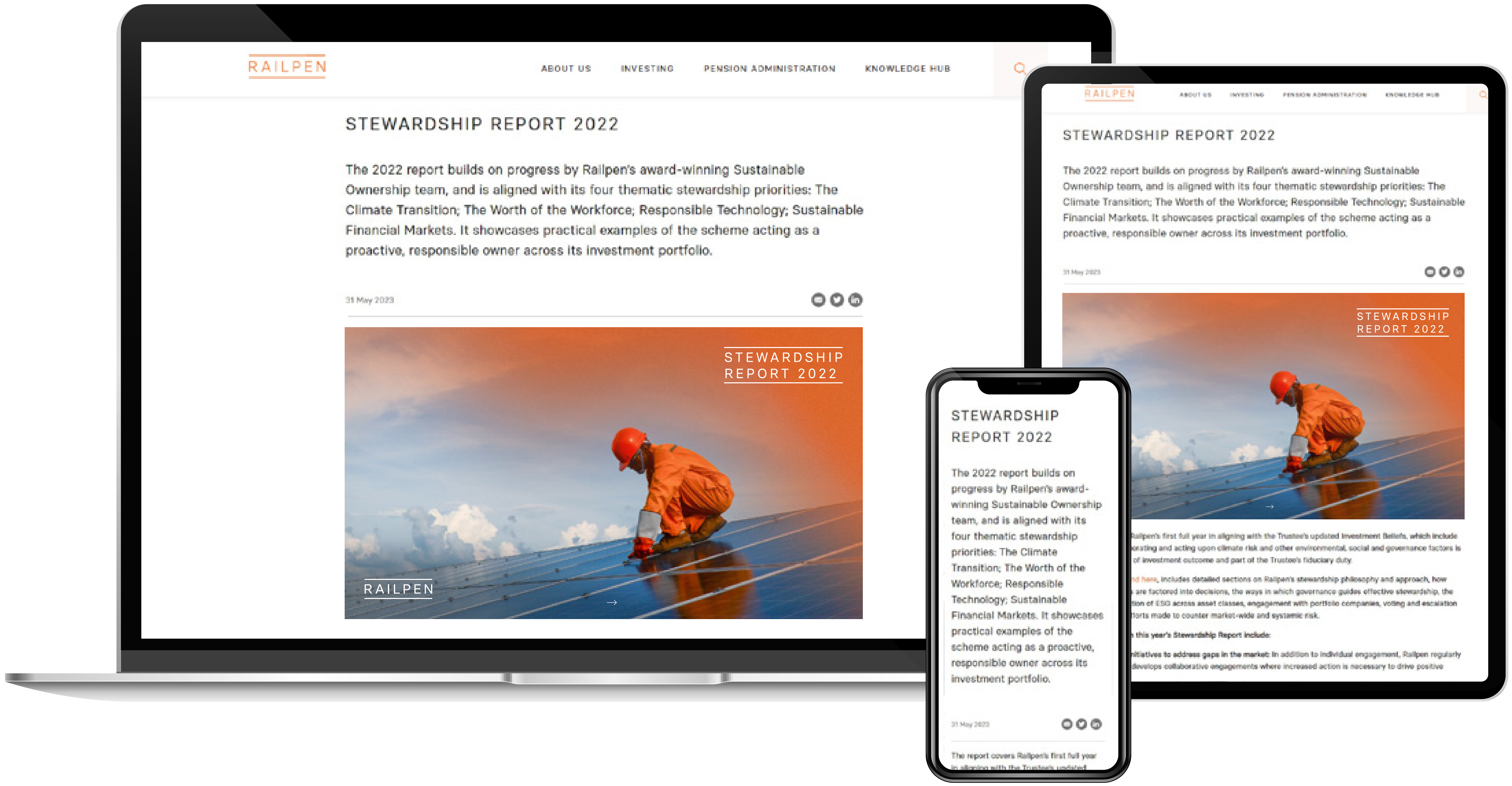
  Governance
  - Board structure
  - Executive remuneration
  - Bribery and corruption
  - Separate Chair and CEO roles
  - Shareholder rights
  - Vision and business strategy
  - Voting procedures
- **ESG integration.** Considering environmental, social and governance (ESG) issues as part of the analysis and decisions for the companies we invest in.
- **Exclusion.** Not allowing the purchase of any of a company's debt or equity instrument and its inclusion in an investment portfolio.
- **Greenhouse gas emissions (GHGs).** A greenhouse gas is a gas 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 which 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.
- **Private markets (or private assets).** An asset that is not traded on a public exchange or stock market. Please also see *'Equity (share)'.*
- **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'.
- **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.** This is a proposal that is submitted by shareholders for a vote at the company's annual meeting, in an attempt to influence the company to take a desired action. Please also see *'Voting (a vote)'.*
- **Signatory (signatories).** An organisation that has signed up or committed to an initiative.
- **Stewardship.** Monitoring, understanding and looking to influence the behaviour of the companies we invest in. Stewardship involves using tools such as engagement, voting and advocacy as ways to shape corporate behaviour.
- **Voting (a vote).** Being a shareholder in a company (usually) gives 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'.*

HERE'S WHERE YOU CAN DISCOVER MORE ABOUT SUSTAINABLE OWNERSHIP

You can find further details of Railpen's work on sustainable ownership here:

- 2022 Stewardship Report. A detailed look at our stewardship activities over 2022.
- 2022 TCFD Report. Provides details of our progress each year on climate issues.
- Global Voting Policy 2023. Our approach to voting on key governance and sustainability issues for the 2022/23 voting season. This is updated each year.
- Active Ownership webpage. Includes links to our UK voting records, questions we have asked at company AGMs, our policy responses and much more.

You can also find many of these reports and more information about sustainable ownership on your member website at railwayspensions.co.uk or btppensions.co.uk.



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

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