STEWARDSHIP REPORT 2024

RAILPEN

CONTENTS

FOREWORD

Both the Railways Pension Trustee Company Limited (the Trustee) and Railway Pension Investments Limited (Railpen) have long believed that stewardship on financially material issues is 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.

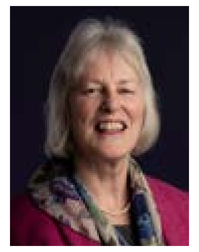
The Trustee therefore fully supports the 2020 UK Stewardship Code – and similar initiatives around the world. We were one of the first signatories to the original Code and were delighted to retain our signatory status to the updated Code last year. We believe these initiatives support and encourage investors to create long-term value for eneficiaries. We therefore hope there will only be minimal updates made to future versions of the Code.

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 2024, we furthered our work to implement the Trustee's and Railpen's shared Investment Beliefs[1] and priorities, as set out in the Statement of Investment Principles (SIP). These beliefs, which fundamentally guide and influence everything the Trustee and Railpen do, including our sustainable ownership activity, were an important driver of our work last year to refresh our Net Zero Engagement Plan and advocate for robust shareholder rights and protections.

Although we know there's much more to do, we were recognised in 2024 for our sustainable ownership and climate work. We won the IPE European Pension Awards for **ESG Strategy**, the ICGN **Global Stewardship Disclosure Awards** (asset owners under $60bn assets under management) and the Actum Group Private Equity Value Creation Forum & Awards for **Value Creation LP ESG Award**. We were also named **Multi-asset Manager/Provider of the Year**, at the European Pensions Awards and the Railways Pension scheme won the Professional Pensions UK Pensions Award for **Pension Scheme of the Year**.

At the time of writing, policymakers in several jurisdictions are rolling back what we consider to be important regulatory initiatives on everything from diversity, equity and inclusion (DEI), to climate change and shareholder rights. Often this is due to the misconception that good governance and sustainable business practices limit economic growth. The Trustee's and Railpen's approach will continue to be grounded in the evidence that integrating, and acting upon, material environmental, social and governance (ESG) issues is an important contributor to good outcomes for members. As long-term investors, we remain fully committed to using all the integration and stewardship tools at our disposal to help secure our members' future.



Christine Kernoghan
Chair of Trustee

Andy Bord
Chief Executive

[1] See *case study 2 (pg 79) in our stewardship-report-2021.pdf* *or visit Railpen's website: Railpen – Investment Beliefs.*

How we've structured this report

This report has been prepared in alignment with the UK Stewardship Code 2020, which sets standards for stewardship and responsible investment practices. Signatories to the Code are required to produce annual stewardship reports detailing how they have applied the Code's Principles, ensuring transparency and accountability. Although our report addresses all the expectations of the Principles, we do not follow a Principle-by-Principle approach. We have instead structured the report in a way that we hope will make the story of our stewardship approach flow better. You can see how each section maps onto the Code's principles at: Appendix 1 | Alignment with the 2020 UK Stewardship Code Principles.

Our work to create a fair, balanced and understandable report

Multiple client-facing, member-facing and communications teams from across Railpen have reviewed this report. Externally, communications consultancy Quietroom has worked with us on some of the case studies featured in this report, which in its entirety has been signed off by senior stakeholders.

On a sample basis, this report has also been reviewed 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 Chartered Institute of Internal Auditors Global Internal Audit Standards (GIAS).

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.

This gives us confidence that our reporting is fair, accurate and balanced – as well as of interest and use to members and employers.

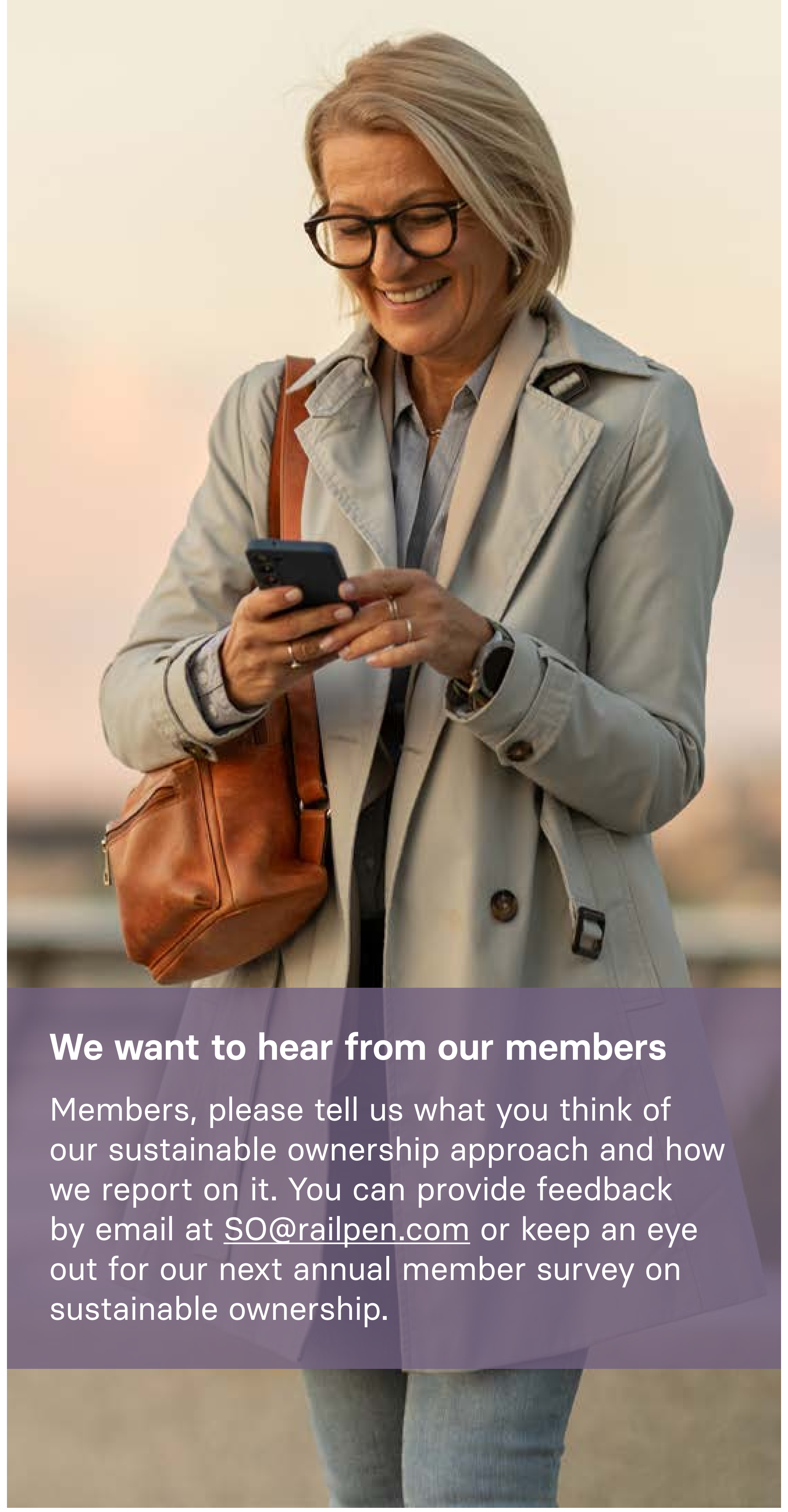
What we've done to help members navigate this report

Our focus in this report is to explain what activity we have undertaken in 2024. In doing so, we refer back to similar or related activity that we may have cited in previous reports. While we're mindful that this adds to the overall length of the report, we feel it's important because it provides valuable context, which helps with understanding, means the report can be read as a standalone document without necessarily needing to refer back to previous reports, and it enables us to be more transparent.

As stewards of other people's money, transparency and effective communication is vital. We're careful to avoid jargon and use acronyms only if we have referred to them in full and/or explained them first. We provide explanations wherever possible to aid understanding and in more recent years have included a glossary of key terms, which this year can be found on pages 75-76; words in the glossary are also highlighted throughout the report.

We will be condensing the key findings of this report into a short member-focused SO Review, which we will publish in 2025. We will also accompany this with member videos[2], which further break down the topics covered into bite-sized chunks and support with different learning styles.

[2] *Our 2023 Sustainable Ownership Member Review playlist is available on Railpen's YouTube channel.*



We want to hear from our members

Members, please tell us what you think of our sustainable ownership approach and how we report on it. You can provide feedback by email 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, most established and intricate schemes in the UK. It provides pensions for more than 150 companies operating within the privatised railway industry.

Responsibility for the pension administration and investment services of the railways pension schemes has been delegated by the Trustee to Railpen, the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA).

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

This means that the management of long-term risk and opportunity has always been fundamental to both the Trustee's and Railpen's investment approach. This includes our long-standing work on sustainable ownership – incorporating our integration, active ownership (what we call 'stewardship') and climate activities into the investment process.

The role of stewardship in achieving our purpose

The Trustee's and Railpen's mission is 'to pay members' pensions securely, affordably and sustainably', supported by our purpose to 'secure 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' lives and wellbeing. We are proud of this responsibility and are committed to improving the lives of members.

Generating the required returns to achieve this mission is challenging. To succeed, we need to use all the levers available to us – including **stewardship** – to drive improvements at the company and market level. 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 (SO) team, which works closely with others in our in-house Fiduciary and Investment Management team (FIM), the Trustee and other specialists across Railpen. This means we can incorporate material 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 strong sense of duty to members underpins our broader culture, values and behaviours. In 2023, we updated our three values:

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 members.

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.

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.

Case study 1: **Embedding our values in 2024**

In our 2023 Stewardship Report, we detailed some of our early efforts towards embedding our values across the organisation. We also laid out plans to integrate our values across internal Railpen processes and external activities.

In 2024, we took a three-pronged approach to achieving these objectives, helping people at Railpen 'live' our values:

- **Trained managers to lead by example.** We encouraged managers to model the values and integrate them into their day-to-day work, including through performance conversations. We also asked them to advocate for our values by encouraging their teams to attend online 'deep dives' and workshops about them, then to feed back on what resonated most.
- **Increased the visibility of the values.** We incorporated them into artwork across the Railpen workplaces. These reminders, which were distributed both digitally and physically, help to guide our people.
- **Integrated the new values into the performance review process.** We incorporated the values into our people's 'Job on a Page' (JOAPs) – which define and clarify each individual's core purpose – ensuring they can see how the values relate to their accountabilities and support their development.

While it takes time to fully embed new values across our organisation, in a September 2024 staff survey, 99% of colleagues confirmed that they knew what the values were. In 2025 our new Values Recognition Scheme will bring our values to life even more by enabling our colleagues to nominate one another for demonstrating our values in action. Not only will this be peer-nominated but it'll be peer-judged and the scheme will be used to support JOAPs and performance conversations.

Also in 2025, we're enhancing how we integrate our values into performance conversations by including an assessment of how the role was undertaken to ensure alignment with our values.

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 shared Trustee and Railpen Investment Beliefs, and accompanying narrative. This includes the following:

"Railpen's mandate is to advise on and manage this investment risk [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 outcome 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."

These shared Investment Beliefs guide and shape everything Railpen does. Taken together with Railpen's values, they drove our stewardship approach last year in the following ways:

Value	How we incorporated the value into Railpen's 2024 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 as well as for the individual workstreams. This takes place after discussion with, and challenge from, other teams across Railpen and considering the insights we gain from our member survey and from conversations with the Trustee and Pensions Committees. • Major projects, like our annual **exclusions** process and each year's **Annual General Meeting (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 and what didn't, to support continuous improvement. We document and share feedback provided and steps taken.
COMMUNITY Community first, ego last	• We collaborate with the Fiduciary and Investment Management (FIM) team, as well as with the Trustee. The relevant expert from the SO team jointly engages with key holdings in partnership with Railpen portfolio managers and liaises on key **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 SO-Public Markets meetings 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 asset owners, we continue to lead by example and work with others to raise standards in the industry overall. Please see **case study 2**. • We provide industry leadership on ESG issues where we consider them to be i) material to our **portfolio** and ii) underexplored by other investors. In 2024, for instance, we continued our campaign for equal voting rights, influencing regulators whose actions could help move the needle on unequal voting rights. Please see **case study 19** on our Investor Coalition for Equal Votes (ICEV).

We leverage our scale and in-house expertise to help us innovate on sustainable ownership. As well as learning from others, we worked hard last year to support pension schemes and other investors to raise standards across the sector and amplify our collective voice on material issues. This aligns with Railpen's corporate values of 'Community' and 'Integrity' as well as with the Trustee's strategic goal (see right) to influence the shape of UK pensions.

Case study 2: **Demonstrating our values | Working to raise industry standards in 2024**

The Trustee and Railpen recognise our responsibility as a large UK asset owner 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 2024, we 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 any learnings into our work on behalf of members.

In 2024, our regulatory work included:

- Co-chairing the FCA-supported Vote Reporting Group (VRG)
- Chairing the UK Corporate Governance Group and Alphabet Group (two sub-groups of the Asset Owner Council)
- Being elected to the Board of the Institutional Investors Group on Climate Change (IIGCC)
- Being a steering group member of the Climate Finance Risk Forum.

We also focused on other initiatives where they align with our approach and priorities. We remain Vice-Chair of the Global Investor Governance Network, and contributed both to the International Corporate Governance Network's (ICGN's) Human Capital Committee's Viewpoint on Worker Voice and to the Pensions and Lifetime Savings Association's (PLSA's) voting guidelines through our role on the Stewardship Advisory Group.

We supplement these activities by participating in conferences and events. In 2024, this included speaking at the Council of Institutional Investors (CII) conference about system-wide voting, at the ICGN conference on shareholder rights, and at the World Pension Summit on 'People, Power and Proxy'.

We believe strongly in the need for continuous improvement, and the benefits of an external and independent perspective. So, we often partner with external providers to review our existing work on a specific issue, for instance through our Acting on Audit report and work (please see case study 27) and planning our 2025 review of our thematic stewardship priorities and approach.

In last year's report, we noted that the Trustee had 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
- influencing the shape of UK pensions.

In 2024, Railpen worked on its Operating Strategy, in response to the Trustee's strategic goals. Launched in January 2025, the Strategy sets out Railpen's ambitions for 2025 and beyond to deliver on the Trustee's goals. It ensures high levels of service delivery to all stakeholders while helping us identify and prioritise key new initiatives that will respond to the changing external environment.

How we work to practise what we preach: our approach to supplier payments

We seek to set the same standards for ourselves as we do for the companies we invest in. Our SO team works extensively with internal experts from across the Railpen business, to help deepen our own understanding of issues at portfolio firms. For instance, the team has worked closely with our own HR team on workforce disclosure and voice mechanisms (please see case study 17), while senior members of Railpen's cyber and information security teams have joined the stewardship team in engagements with companies on cybersecurity issues (please see case study 16). Although alignment between our operational and stewardship approach is challenging to achieve, we continue to work hard towards it.

Case study 3 highlights our 2024 efforts to improve the supplier payment process. We detail what Railpen has done – and how the SO team encourages companies we invest in to do likewise.

Case study 3: **Paying suppliers fairly**

Issue

Many suppliers rely upon stable, predictable payments streams for their ongoing viability. There is a growing body of evidence to demonstrate the financial impact of a company's treatment of its suppliers. Poor treatment can increase a company's operating costs over the medium-term and damage goodwill amongst both suppliers and customers.

Railpen is a business in its own right, using a range of suppliers. We pride ourselves on good payment practices – from the point at which our Procurement team on-boards a new supplier to the work our Finance colleagues do to ensure invoices are paid on time.

Our approach echoes our company values as well as shaping how comfortable we are undertaking stewardship at portfolio companies on this issue.

In 2024, to further enhance our process, we identified an opportunity to improve how we manage our supplier payments in terms of efficiency, accuracy and accountability.

Approach

Railpen's Finance team decided to undertake a comprehensive transformation initiative, with three key focus areas as follows:

1. **People:** We reorganised the Finance team, creating sub teams to focus on specific capabilities and established a dedicated Purchase to Pay (P2P) team. We recruited external expertise while also developing existing colleagues.
2. **Control environment:** We set up a finance operating authority to oversee and agree process changes collectively. We enhanced our testing and reporting capabilities and developed KPIs for the P2P process. We also enhanced our risk monitoring and reporting system, adding 'Event' and 'Near Miss' classifications, and action planning to address learnings.
3. **Continuous improvement:** We documented and enhanced processes and introduced new tools, including a Continuous Improvement (CI) Tracker and an Innovation Whiteboard. We initiated a thorough supplier data cleanse and educated the wider business on best practice.

At the same time, Railpen's SO team recognised that the data landscape on supplier payments was improving, and it would be possible to incorporate new lines into our 2024 Global Voting Policy update. Before we did so, we spoke to the Finance and Procurement teams to gain an insight into Railpen's own approach, and comfort that we were 'practising what we preach'.

Outcome and next steps

Our 2024 approach was successful. We were able to enhance controls and streamline processes, resulting in greater efficiency and a decrease in the number of late invoices. We have now achieved a stable and consistent position of 97% of payments on time.

Our work has also been recognised externally. Railpen received the 2024 Fast Payers Award from Good Business Pays in recognition of our payment practices and engagement with suppliers. In 2024, Railpen was named among the top 5% fastest-paying companies.

Given the focus on continued improvement, in 2024 Railpen also became what we understand to be the first investor globally to publish our expectations of portfolio companies around good payment practices, and outline how we will vote where those expectations are not met.

Looking ahead, Railpen will roll out a new finance enterprise resource planning system, Workday Financials, to ensure the Finance team is equipped with the technology required to support Railpen into the future. Our SO team will also continue to engage with companies on how quickly they pay their suppliers.

Stewardship in line with the Trustee's and Railpen's shared Investment Beliefs

Each of the Trustee's and Railpen's shared Investment Beliefs provides the parameter and framework for all parts of the investment process used across the organisation and our stewardship activities more specifically[3]. A coherent and updated set of Beliefs helps Railpen to ensure an alignment between our investment decisions and the interests of all our schemes' members.

While all of the Investment Beliefs and are relevant to our sustainable ownership work, our fourth belief is the most pertinent:

"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."

Investment Belief	2024 impact and progress
"Well-informed and financially material ESG analysis"	• Continued our Sustainable Investment Insights programme • Closer alignment of internal governance on investment decision-making on Fundamental Equities companies
"Societal and systemic risks, such as climate change"	• Participated in a panel on system-wide voting at the 2024 Council of Institutional Investors Fall Conference • Planned our 2025 review of our thematic stewardship priorities • New thematic voting lines in our 2025 Voting Policy update (case study 23)
"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 (case study 6)

3 *You can find our Trustee 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. Our work, which is enabled by and delivers against our fourth Investment Belief (above), aligns with our fiduciary duties and our commitment to long-term value creation.

The sustainable ownership work we undertake to protect the value of members' savings is provided through our role within the Fiduciary and Investment Management function.

Railpen's investment process considers ESG factors through the following four lenses:

- Improving investment returns
- Reducing investment risk
- Impacting Railpen's reputation as a responsible investor
- 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 SO, which are as follows:

- **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 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 for company behaviour on material ESG issues to improve. This helps Railpen, on the Trustee's behalf, to enhance long-term investment returns for members.

Progress and effectiveness at serving members' best interests

In January 2025, Railpen set out a new Operating Strategy. This outlines how Railpen proposes to organise and focus its operational capabilities and resources for 2025 and beyond, to deliver the Trustee Board's current strategic goals and sub-goals. However, in 2024, Railpen's thinking and approach followed the strategic goals set in 2022:

Figure 1: Railpen's strategic goals

Using these overarching strategic goals, we developed specific objectives for the SO team, ensuring alignment between team activities, company strategy and, ultimately, the mission we share with our Trustee and our purpose.

Railpen strategic goal	Sustainable ownership objectives
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

We were delighted to be awarded the following accolades in 2024, which in part reflected our sustainable ownership work:

Pension Scheme of the Year at the Professional Pensions UK Pensions Awards, and **Multi-asset Manager/Provider of the Year** at the European Pension Awards. We were named winners in the category of ESG Strategy at the IPE European Pension Awards and highly commended for **Alternatives, Carbon and Net Zero Strategies** and in **Stewardship & Engagement**. Several members of the SO team also won individual awards, including the **Sustainable and ESG Investment Woman of the Year** at Investment Week's Women in Investment Awards, and **Top 30 Inspirational Women: Change Makers** from Brummell Magazine.

[4] *The 2023 Sustainable Ownership Member Review videos are available on Railpen's YouTube Channel.*

Progress against our sustainable ownership objectives in 2024

Objective 1: Communications which reflect stakeholder input and raise awareness	
Progress in 2024	• SO Review (published September 2024) designed around member survey feedback (case study 5) • Twice annual meetings with the SO Client Forum • Set up the Trustee SO Working Group • Produced member videos to accompany our SO Review for the first time[4] • Added a page on 'Responsible Technology' to the member website, in response to feedback from our 2024 member survey that members were increasingly interested in this topic
Next steps	• Review of sustainable ownership member communications plan • Publish our first standalone member survey feedback report

Objectives continue on next page

Objective 2: Deepen integration of sustainable ownership across pre-investment and post-investment	
Progress in 2024	• Thematic deep-dive analysis on issues including deforestation • Launch Acting on Audit paper (case study 27) • Launch Investor Coalition for Equal Votes (ICEV) "Voting on Voting Rights" report (case study 19) • New deep-dive analysis of our approach to executive remuneration
Next steps	• 2025 review of our thematic stewardship priorities, including working with an external provider to assess our current approach and help us understand the evolving landscape for system-wide investment

Objective 3: Develop in-house analytical capabilities	
Progress in 2024	• Appointed a provider for our stewardship database and platform • Ongoing training and development for all members of the SO team (on page 28) • Extended our climate analytics and data provision, including work to quantify climate transition value-at-risk
Next steps	• Embedding use of our stewardship database and platform across the SO and Investment Management Teams • Supplementing our climate analytics with a greater focus on physical climate risk, adaptation and resilience

Objective 4: Develop robust integrated funding risk management advice	
Progress in 2024	• Part-time secondment from SO team to the Fiduciary Clients team until early Q2 2024 • Collaborating with the Fiduciary Management team in the build-out of a Total Portfolio Management framework, including sustainable ownership as a key lens, and embedding our climate commitments
Next steps	• Further incorporation of climate risk and opportunities into strategic allocations, including through application of a climate scenario analysis project that has been commissioned

Objective 5: Development of a rail proposition that's attractive to employers	
Progress in 2024	• Assets under management of our self-select ethical investment fund nearly doubled • Consideration of feedback from the sustainable ownership member survey at a Railpen committee that discusses Defined Contribution (DC) issues
Next steps	• 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, 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.

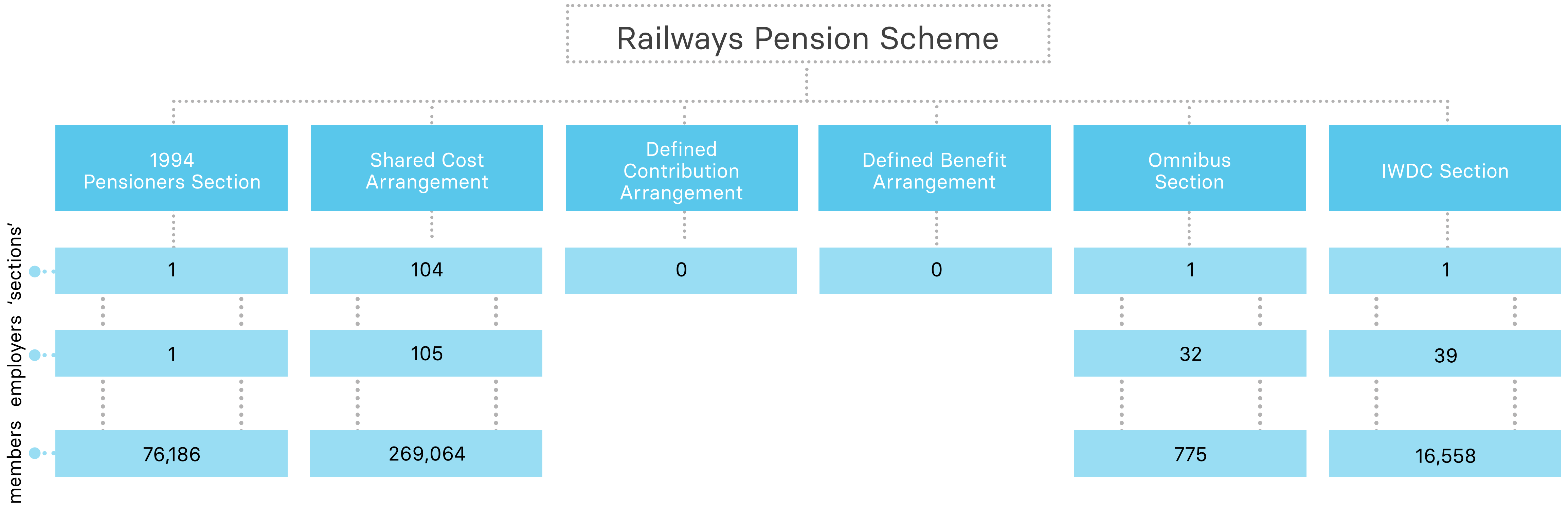


Figure 2: Railways Pensions Scheme (RPS)

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 number of countries: 69

31 December 2024

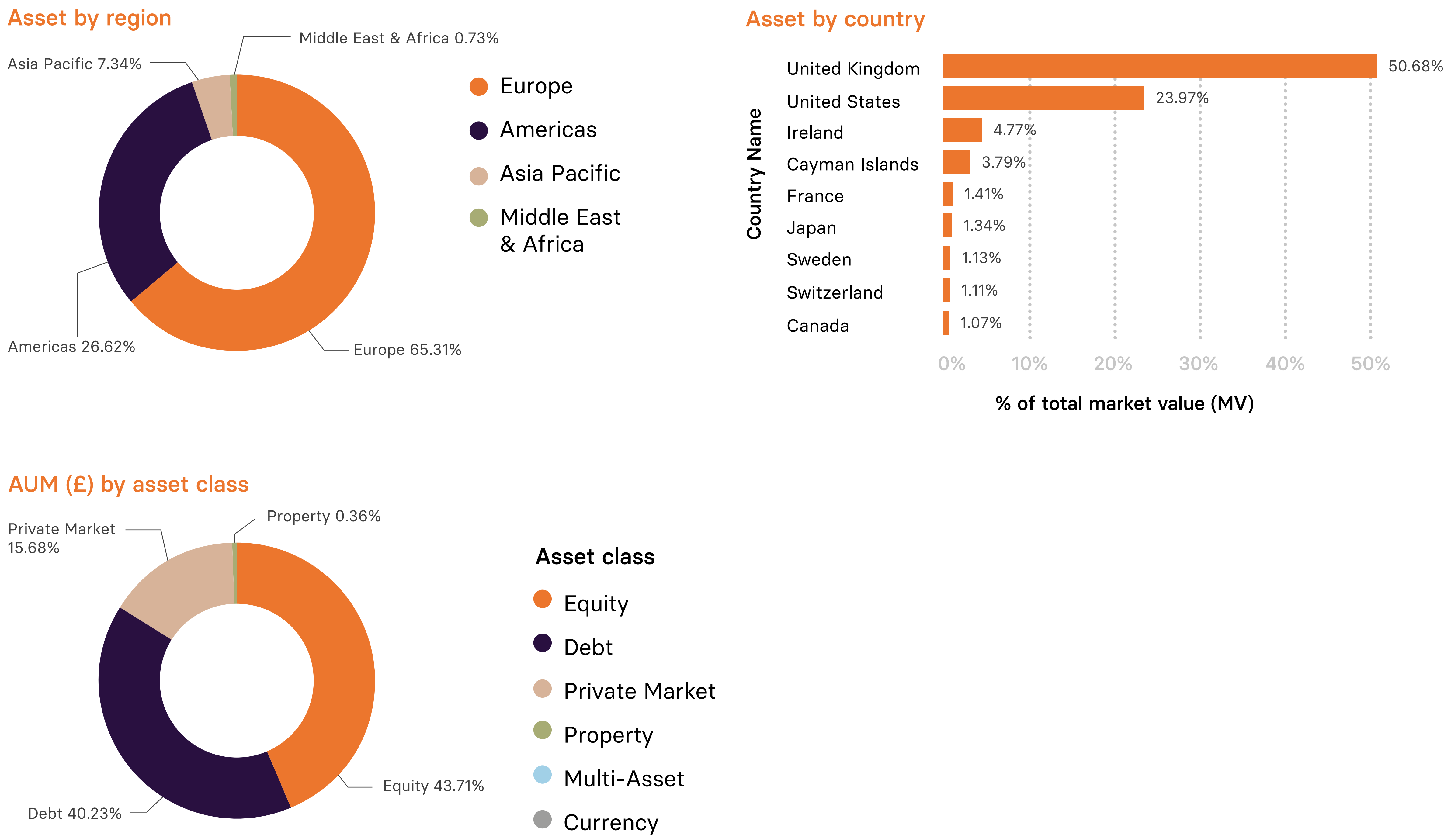


Figure 3: Railpen's assets by country and asset class, 31 December 2024

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, the work of the Investor Coalition for Equal Votes (ICEV) is focused on engagements with companies before they are publicly listed, 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 members' behalf.

As a UK asset owner, we also focus on engagement with UK companies through our UK Stewardship Programme, as flagged in last year's report. This year, this included our work to send our 2025 Global Voting Policy update for the first time to the 350 largest UK companies, given the latest update's strong emphasis on our expectations around UK corporate governance in the wake of the changes to the UK listings rules (case study 23).

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 of holdings in the domestic market.

How we understand the views of members

We look at member demographics across the railways pension schemes, including age, gender and location. We update this information every few years to understand membership trends.

This table (right) tells us that 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 children's or dependants' pensions) and the older categories (owing to a combination of factors including: women's greater average longevity membership at the older ages relating to the surviving spouses of deceased members[5]). 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. We've also found that 36% of all members reside in London or the South East (this is because more of the UK population lives in these places overall. When compared as a proportion of total population, the membership is evenly spread across the UK).

Although there's an emerging body of evidence that seeks to highlight how attitudes to sustainable investment differ across gender, age and other demographic indicators, we believe the results remain too inconclusive currently. We continue to follow the debate with interest[6].

This is one of the reasons why, in 2024, 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.

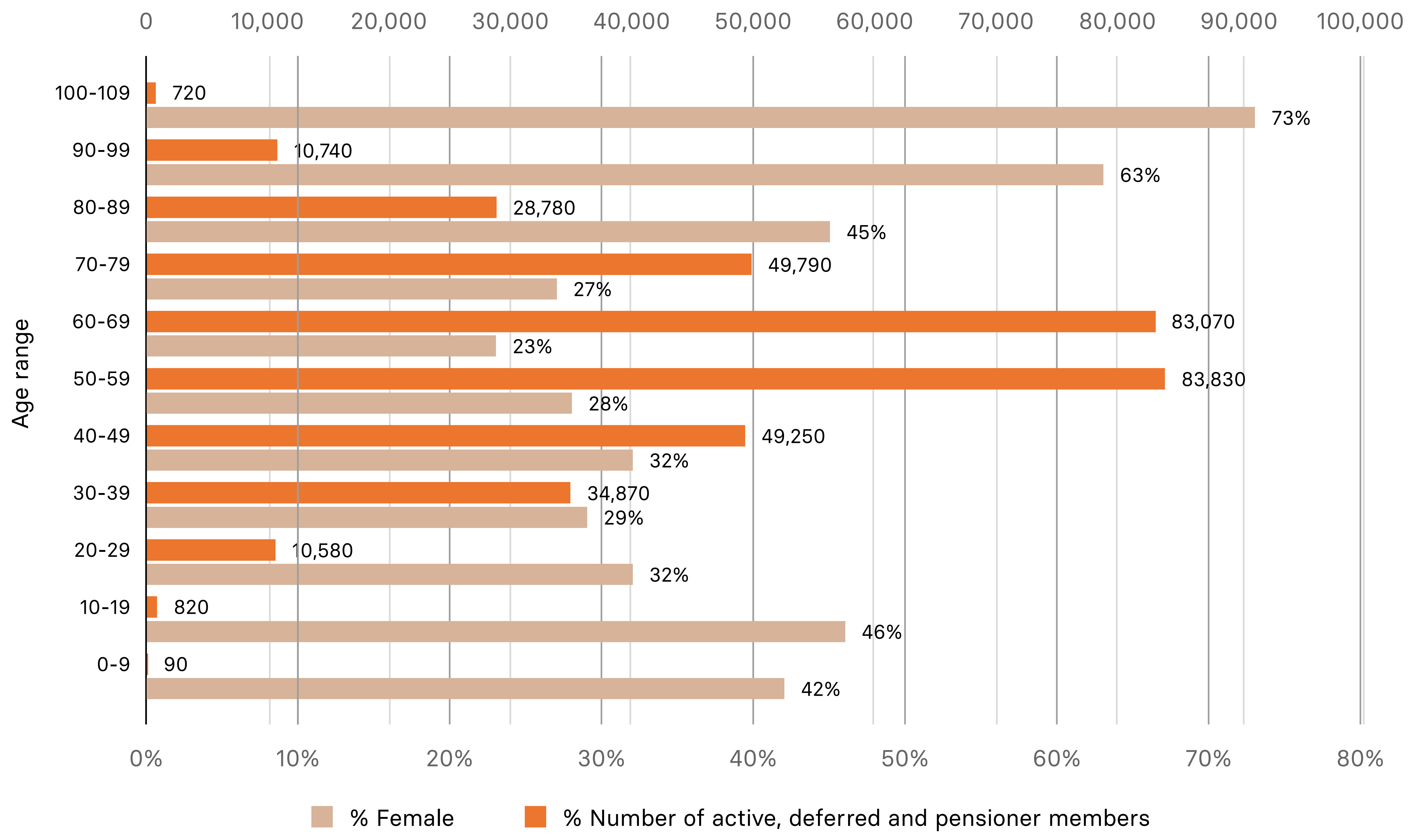


Figure 4: Table shows the age and gender of members of the railways pension schemes as of 31 December 2024

5 *The railways workforce has a higher proportion of males and the spouses of deceased male members tend to be females.*

6 *For instance, we note the growing body of increasingly consistent evidence on gender. This includes RBC'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.*

This work complements other mechanisms we have in place to understand and incorporate member perspectives:

- **The Trustee:** All 16 members are nominated by the members or employers of the Scheme 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 Investment Advisory Panel (IAP):** This was established to advise Railpen on strategic investment-related matters 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 to interact with these groups, including regular virtual and in-person meetings between the SO team and the Trustee throughout the year. Sustainable ownership is an agenda item at Trustee meetings at least once per quarter.

In 2024, we set up a Trustee SO Working Group (SOWG) to enable more in-depth discussion of our sustainable ownership regulatory obligations and thereby increase efficiency of the full Trustee Board. A secondary aim was to enhance two-way engagement between the Trustee and Railpen on sustainable matters. The SOWG is chaired by Peter Holden – one of our Trustee Directors – and in 2024 it discussed issues including: our approach to climate scenario analysis; emerging thinking on our 2025 Global Voting Policy update; and the next steps on sustainable ownership member communications.

"Recent global developments continue to present an uncertain outlook making it more important than ever that the Trustee and the Railpen continue to 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 to do so, companies need to make sure their business models can deal with the sustainability challenges that are already taking place now, as well as those that will arise in the future.

"As Chair of the Trustee Board Sustainable Ownership Working Group, I will continue to work hard to ensure that the Trustee's Investment Beliefs around ESG are fully integrated into the investment decision making process to the ultimate benefit of members who remain at the heart of everything we do."

Peter Holden,
Chair of the SO Working Group

Case study 4: **Deepening our interactions with Pensions Committees on sustainability**

During 2024, we discussed our sustainable ownership work with Pensions Committees and provided written quarterly updates.

Issues discussed included voting for impact, our Net Zero Plan, corporate governance and the Investor Coalition for Equal Votes (ICEV). These conversations have guided our thinking on key topics, with questions from members of our Pensions Committees covering how we:

- assess net zero commitments and the data sources used
- determine the criteria that govern our **exclusions** lists.

Our SO Client Forum

In 2021 Railpen set up a SO 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 up to 12 Pensions Committee members, as well as two Trustee Directors.

The agenda for each meeting is put together by the SO team, based on interest from SOCF members. As well as a general SO team update, the agenda includes 'deep dives' into specific topics. Our 2024 meetings included presentations on:

- next steps on climate change - update on the risks and opportunities in the Climate Change workstream. See **case studies 8** and **15**
- executive and workforce remuneration - consideration of fair pay practices throughout the workforce. See **case study 17**
- biodiversity and deforestation - integrating nature risks and opportunities into our investment decisions. See **case study 25**
- corporate governance - the importance of well-run companies and recent changes to the UK listing rules. See **case study 28**.

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

We'll continue to run these meetings in 2025.

How we talk to members about stewardship

Our members are at the heart of what we do. That's why since 2017, in addition to the longer-form Stewardship Report, we have also published an annual, standalone, member-focused SO report (the SO Member Review). This is complemented by a series of videos to further enhance understanding and support with accessibility[7].

We've reported on other steps we've taken to improve the accessibility of the SO Member Review[8] in past Stewardship Reports. Case study 5 in this report explains this in more detail as well as the role of the SO Member Review in our broader member engagement activity on sustainability issues.

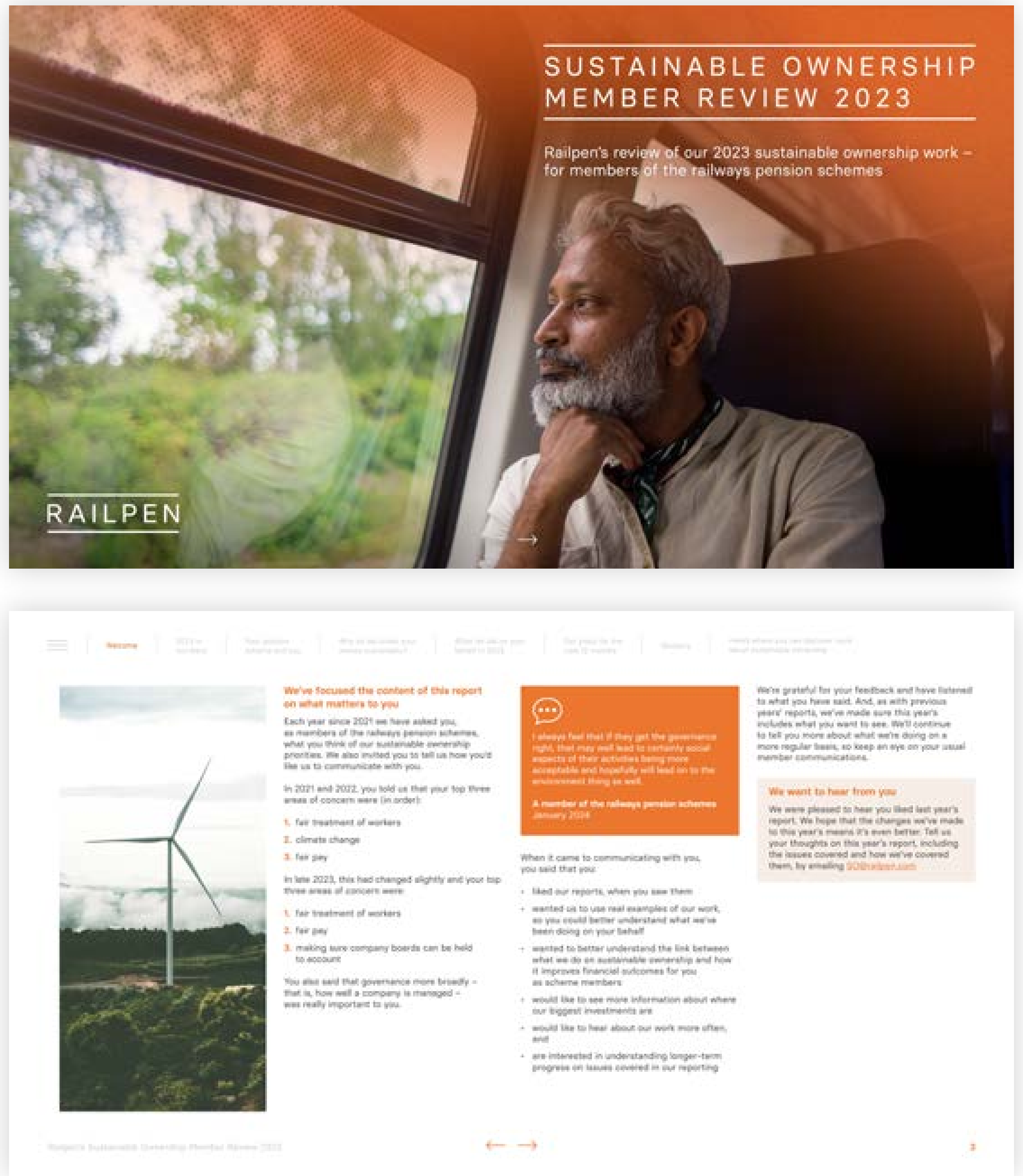


Figure 5: Excerpt from our 2023 SO Review (published in 2024)

We are transparent about our **engagement** and **voting** activities on an ongoing basis. Our Active Ownership page on the Railpen website gives 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
- voting activity[9] – our voting dashboard was updated in 2024 to make it more visually appealing and accessible for members and other stakeholders.

We also seek dialogue on sustainable investment issues with members through our social media channels and a dedicated Member Advisory Group. Sustainable ownership content forms a significant proportion of our content on the Railpen X (formerly Twitter) feed, as well as in 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 SO team responds to member queries on how Railpen intends to vote at any contentious meetings.

Our sustainable ownership work regularly features in member newsletters and our annual survey helps us reach even more members, particularly 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.

7 *Our 2023 Sustainable Ownership Member Review playlist is available on Railpen's YouTube channel.*

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

9 *Please see our Proxy Voting Dashboard.*

Case study 5: **2024 sustainable ownership engagement with members**

Background

In 2021, 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 SO Review for members, based on what they told us. We then re-ran our member survey in 2023 to monitor any changing views.

Our approach in 2024

In 2024, 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 also sent an email campaign to 20,000 randomly selected members, of all categories – a significant increase on the 5,000 we sent it to in 2023.

This more than doubled the number of responses from the previous year, 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 survey findings were as follows:

- 49% are familiar with the term "sustainable ownership" (54% in 2023).
- 66% think it's extremely or quite important that we try to influence law and regulations to ensure companies do better on ESG (74% in 2023).
- 38% deem 'social' issues to be their top area of concern, followed by 34% on 'governance' and 27% on 'environmental'.
- Top issues were (in priority order): Fair pay; reliable and accurate company reporting; making sure company boards can be held to account; workforce treatment; modern slavery; and responsible technology.

Although 'fair pay' and 'workforce treatment' have been reliably in the top issues list since the survey began, this year was the first that two governance issues 'reliable and accurate company reporting' and 'making sure company boards can be held to account' made it into the top four issues. 2024 also marked the first time responsible technology made it into the top six issues for members.

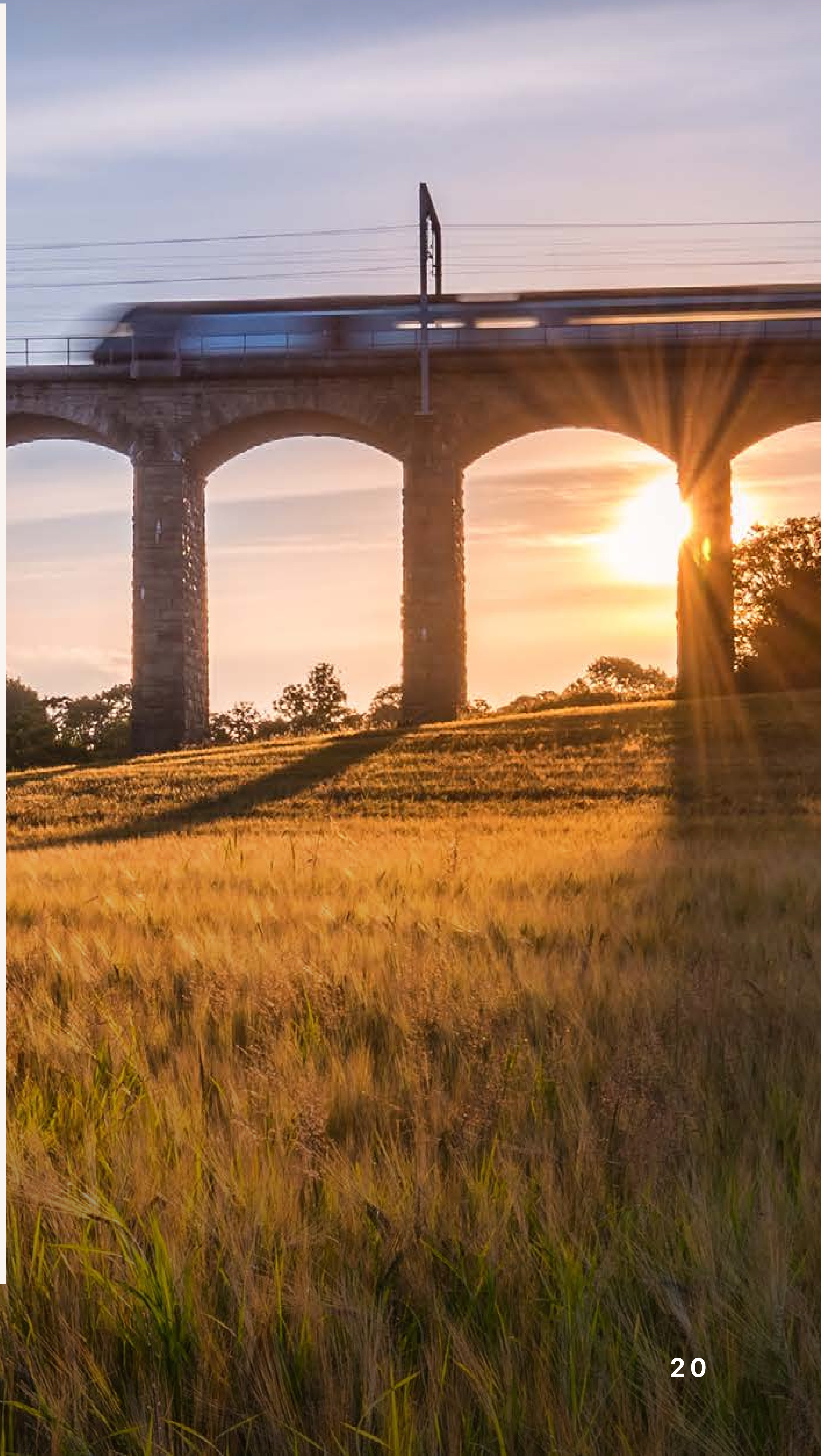
As in previous years, several free-form survey comments noted concerns that sustainable ownership could negatively impact members' income in retirement.

Outcome and next steps

We note the continued concerns about whether sustainable ownership objectives will lessen investment returns. Our activities are based on the Investment Belief that sustainable ownership helps to drive long-term returns. We therefore feel we need to further explain the financial materiality of our sustainable ownership work to members.

It's comforting that our extensive work on governance issues through, for instance, our work on the Investor Coalition for Equal Votes (ICEV) and our Acting on Audit report, is in line with members' growing interest in corporate governance issues. As more members prioritised responsible technology than previously, we also updated our member website to include a case study and videos about our work in this space[10].

[10] *Please see: Responsible technology| Investment case studies | Railways Pension Scheme on the member website.*



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 began 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 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. It also ensures greater alignment with our **thematic** priorities and the Investment Beliefs we share with the Trustee.

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 and our purpose to secure our members' future. As a result, oversight of our sustainable ownership activities takes place from the top of our organisation.

The FIM business unit brings together teams responsible for supporting the Trustee and the Pensions and Management Committees in their investment responsibilities. The SO 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.

The merger of reporting lines for Investment Risk Management (IRM) and SO, with all individuals reporting to the Director of Investment Risk, Oversight and Sustainable Ownership (IROSO) has 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 SO team. The Director of IROSO reports to the Chief Officer, FIM (COFIM), who in turn reports to Railpen's Chief Executive.

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

The SO 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 SO team undertakes analysis and, where necessary, works with the Investment Management team to probe any areas of interest or concern. The SO team will assess and quantify the level of ESG risk and make a recommendation on possible mitigating activities.
- **After a decision to invest:** The SO and Investment Management teams co-engage with key portfolio companies on stock-specific issues, as well as discussing Railpen's overall thematic sustainability and governance priorities.
- **Voting recommendations:** These are, where relevant, made and implemented by the SO 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 action:** The Legal team follows a triage process to help assess whether to recommend participation for an Opt-in Class Action. The SO team feeds in views regarding any potential reasons not to proceed, including on the grounds of conflict of interest or impact on our existing engagements. The Chief Officer, FIM (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 SO team and discussed with others across Railpen at regular meetings before going to the Investment and Risk Committee for approval and Investment Oversight Committee for noting. This is then implemented across the internally-managed portfolio and sent to our external managers where relevant.

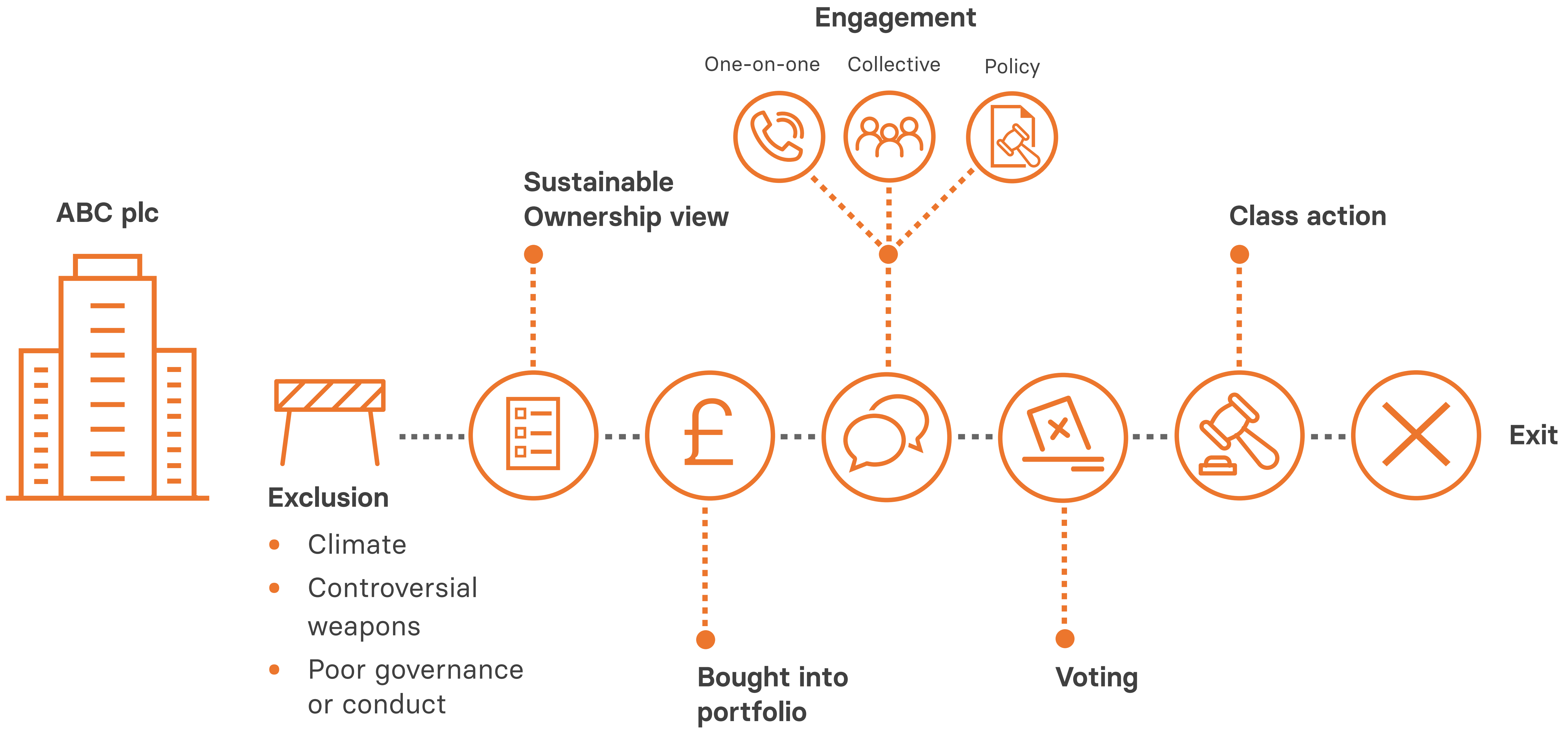


Figure 6: The potential lifecycle of an investment at Railpen

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[11]. 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.

Review activity (annual)	2024 updates
Global Voting Policy	• New lines on emerging ESG issues such as plastics and anti-microbial resistance • Strengthening our approach to corporate governance standards, including expanded lines on officer exculpation and companies moving to a jurisdiction which we believe offers fewer shareholder protections • Updated lines on the Living Wage, diversity expectations of senior management teams and climate lobbying disclosures
Exclusions Polices • Climate • Controversial weapons • Poor governance or conduct	• We ran the 'full fat' version of our 'Governance and Conduct Zero Weight' exclusions process in 2024, including refining the methodology so it better reflects our thematic priorities (see **case study 11**)
Engagement targets and objectives	• Updated our engagement objectives for both bottom-up and top-down engagements • Ran a procurement process and appointed a provider for a stewardship platform, to support tracking and reporting of our stewardship progress. See **case study 12**.
Due diligence processes (external managers)	• Creation of one lead individual across all external managers, to ensure our standards and approach are consistently applied

[11] *Please see P.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.

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, the following takes place:

- The 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 2024 enhanced compliance arrangements. This included the following:

- Approving our 2024 Risk and Compliance Training and Awareness Plan for mandatory training (required by law or by our regulators).
- Making the training content more relevant by referring specifically to Railpen, RPTCL and RPIL.
- Moving some e-modules to a two-year cycle – Anti-Money Laundering and Counter Terrorist Financing (AML/CTF) (UK), Conflicts of Interest, UK Market Abuse Regulation (UK MAR) and Anti-Bribery & Corruption.
- Appointing a Director of Financial Crime.
- Starting a Financial Crime Enhancement Project to re-assess all financial crime risks.

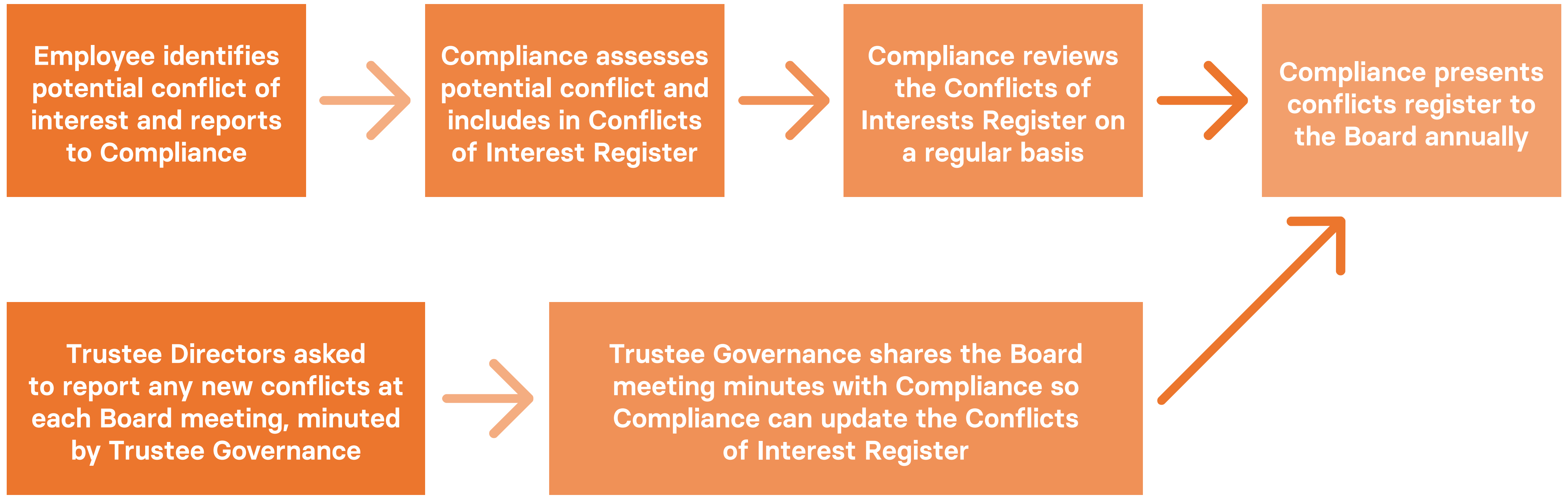


Figure 7: Conflict of interests reporting process

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 SO team's ability to act as stewards on members' behalf.

We can confirm that our potential **stewardship** conflicts in 2024 were incorporated into Railpen's overall conflicts of interest register. This means there is greater visibility for all staff, beyond those just in the SO team, when it comes to managing stewardship conflicts.

Most likely potential conflict	Summary	Control	Description	Control owner
External interests	May arise where an individual at Railpen with operational influence on stewardship activity, holds a role at, or is connected to an individual who holds a role at, an investee company that 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	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**, putting 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, FIM 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: **Conflicts and our stewardship database provider**

Issue

In 2024, we:

- went to market in the search for a stewardship database provider (please see case study 12)
- wrote to the FTSE 350 – the UK's largest listed companies – to provide guidance on how to improve their people reporting in advance of the 2025 annual reporting season (please see case study 17).

In both instances, a key member of the SO team, who would ordinarily have significant involvement in these two projects, faced a conflict regarding one of their declared interests.

In the first example provided, one individual's family member had a financial interest in one of the possible stewardship database providers.

In the second example, the individual concerned holds a non-executive director role at a pension scheme whose funder is a FTSE 350 company.

Objective

It is important that the SO team, like others in Railpen, acts in line with the Trustee's fiduciary duty and in members' best interests.

This covers both the day-to-day stewardship, integration and climate activities that members of the team undertake, as well as ensuring that we partner with the right external service providers that are best equipped to help us secure our members' futures.

Approach

Stewardship database provider

As well as informing their line manager at the earliest opportunity of the existence and nature of the conflict, the relevant individual went to Procurement and Compliance to declare their conflict. These two teams then liaised with each other, as well as with other relevant SO specialists, to provide a suitable solution.

The conflicted individual was informed of the approach to be taken. They were allowed the opportunity to raise questions on all of the responses to the Request for Proposal (RfPs) with the Procurement Business Partner, and were then excluded from the rest of the procurement process until after the preferred provider had been appointed.

FTSE 350 workforce disclosure letter

It was agreed that the conflicted individual would not be responsible for sending the letter to the company, nor would there be any feedback from the other members of the SO team regarding further interactions with the company.

This approach aligns with the existing conflicts management process for voting decisions at this company.

Outcome and next steps

The conflicts process was followed as agreed in both situations. The team moved through procurement and appointed a provider (not the provider which posed a conflict of interest). The workforce disclosure letter was sent by another member of the SO team.

In both instances, we believe the conflict was managed effectively and in a way which enabled the SO team to continue to do the best they could for members of the railways pension schemes.

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 SO team of 9 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 SO teams offer a diverse range of backgrounds and perspectives. On 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 2024, we were delighted to appoint a new junior analyst with a background in climate analysis and policy.

To support us during the proxy season, we also hired another internal secondee from our Benefits business unit as a Shareholder Voting Associate. This was done on a fixed contract for six months. By recruiting outside the FIM team, we've been able to both provide an interesting training opportunity for a Railpen colleague and bring new perspectives to the SO team.

We also brought on board a contractor with expertise in governance and workforce stewardship to support us on our workforce directors and workforce reporting work.

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 FIM team takes the responsibility to ensure all relevant individuals are up to date on the key issues in a rapidly evolving market. In the SO 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 established a Career Planning, Learning and Development (CPLD) framework. This 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. Feedback from participating individuals continues to be excellent so far, with the intention now to roll the CPLD framework across the whole FIM team.

Examples of training activities undertaken by relevant teams in 2024 include the following:

- 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)
- One individual studying the University of Oxford Sustainable Finance Course

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 SO 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.
- Work across the FIM team to pilot an Early Careers Framework, recognising the need for more structured progression and development opportunities for early-stage talent.

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 Trustee's Investment Belief narrative 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 FIM team deliverables, which in turn feed into Railpen goals that are designed to help us achieve our purpose of securing our members' future and ultimately pay members' pensions securely, affordably and sustainably.

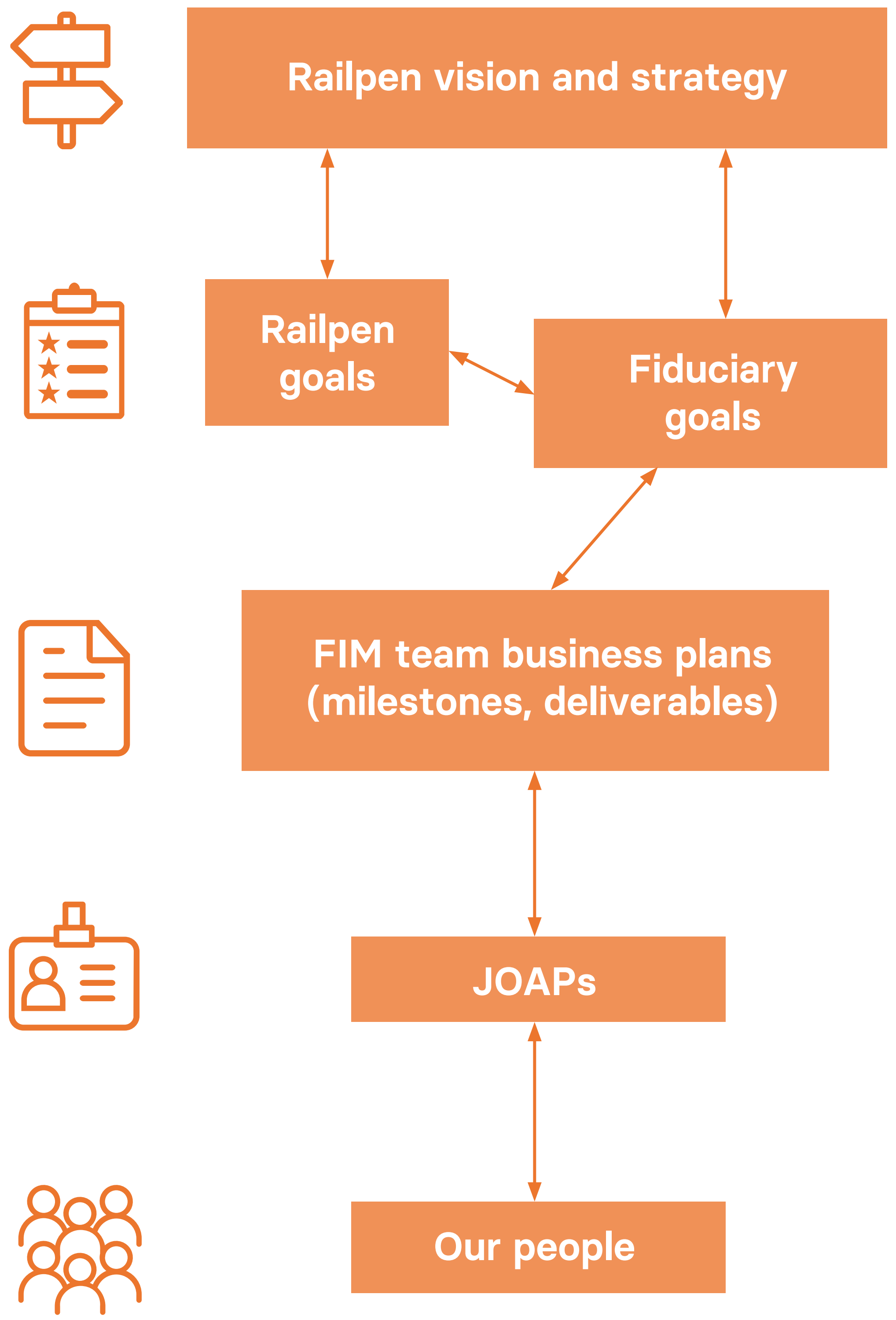


Figure 8: Railpen vision and strategy

Linked to this individual performance assessment is the annual bonus programme. The SO team is eligible to participate in this programme. Like their colleagues, SO team members are assessed against a number of accountabilities, behaviours and priorities in their JOAP, including individual delivery of ESG initiatives. From 2024, this also incorporates a consideration of behaviour in alignment with the new Railpen values (please see case study 1). Individuals' bonuses also depend on broader Railpen performance against a pre-agreed scorecard.

The incentivisation of the FIM 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 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 SO 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.

How effectively the Railpen structure supports stewardship

In light of the rapid development of the sustainable investment landscape, the SO 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 aimed 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 2024 these structures have been effective in supporting the impactful engagement, thoughtful voting and scrutiny of third-party service providers outlined elsewhere in this report.

We also think the additional 2023 changes continue to support our stewardship work in the following ways:

- As well as the combination of the FIM, SO and Investment Risk Management 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 cyber resilience and risk, and the importance of a high-quality audit.
- 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 more efficient, and accountability 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 shared Investment Beliefs:

"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 wider FIM team, the SO team's analysis of a particular company can result in one of the following 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 close collaboration with the FIM team across all asset classes, not just listed equity. **Case study 7** (next page) is an example of our work around sustainable property.

Case study 7: **Sustainable property in Cambridge**

Issue

Railpen's long-term approach sees us investing in real assets to provide the diversification, stability and long-term reliable growth members need to help us secure their future, while also enabling us to deliver social, economic and environmental value.

Our in-house Property team targets commercial and mixed-use investments. They apply asset management experience to generate added value through development, refurbishment, repositioning and income enhancement projects. The team also oversees the integration of sustainability issues in its investments.

Objective

Railpen is a large investor in Cambridge. We are creating an innovation cluster of real-estate assets, including sustainable and amenity-led workspace, build-to-rent homes, laboratories and research facilities, and public spaces, all located in one of the most significant and fastest-growing economic areas in the UK.

Our approach in the city is situated strategically, conceived to address dominant and emerging occupier requirements and built to high environmental, ecological and wellbeing standards.

Botanic Place, Mill Yard, 230 Newmarket Road, and The Beehive are a cluster of developments that will create a new standard, not just for Cambridge, but for the UK.

Approach

Sustainability is a priority consideration from the earliest stages of development design for Railpen, which supports us in our mission to have a positive environmental impact on the city. We've adhered to numerous frameworks and sustainability standards for each development, including One Planet Living Principles, the UN's Sustainable Development Goals, and we're targeting BREEAM certification across new developments.

We also work with business, community groups and charitable organisations that help us to place the people of Cambridge front and centre.

Highly-efficient buildings

The buildings in each development will be leading examples of sustainability, both in how they are built and how they operate.

The materials used will be responsibly sourced, including repurposed materials from local demolition, and no fossil fuels will be used on site. Ongoing operation will be powered by renewable sources, such as built-in solar panels.

The buildings will be 'intelligent' – programmed to optimise energy efficiency. The architecture at Botanic Place will respond to the sun's position, deflecting heat in the warmer months to minimise the need for cooling, and intelligent ventilation will circulate fresh air through the building, without the need for air conditioning.

Green space and biodiversity

Railpen is bringing more green spaces to Cambridge through new curated gardens and a public park. These green spaces are designed to bring the community together and enable people to enjoy nature.

We'll plant over 200 trees and local plants and there will be improved habitats for small mammals, birds, pollinators and insects which, in the round, will add to the local biodiversity benefits of our developments.

Best foot forward

Across development, we will deliver new pedestrian thoroughfares and bicycle facilities that integrate with local cycle routes (we have worked closely with Cam Cycle on our plans). We've designed our Mill Yard development on active travel principles, meaning it will be largely car free, with the exception of blue badge spaces, Electric Car Club spaces and loading bays, to minimise traffic impact on the surrounding area.

Outcome and next steps

Each of the projects mentioned below are in development at the time of writing:

- Botanic Place
- Mill Yard
- 230 Newmarket Road
- The Beehive

We will aim to provide updates on these developments in future Stewardship Reports.

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).

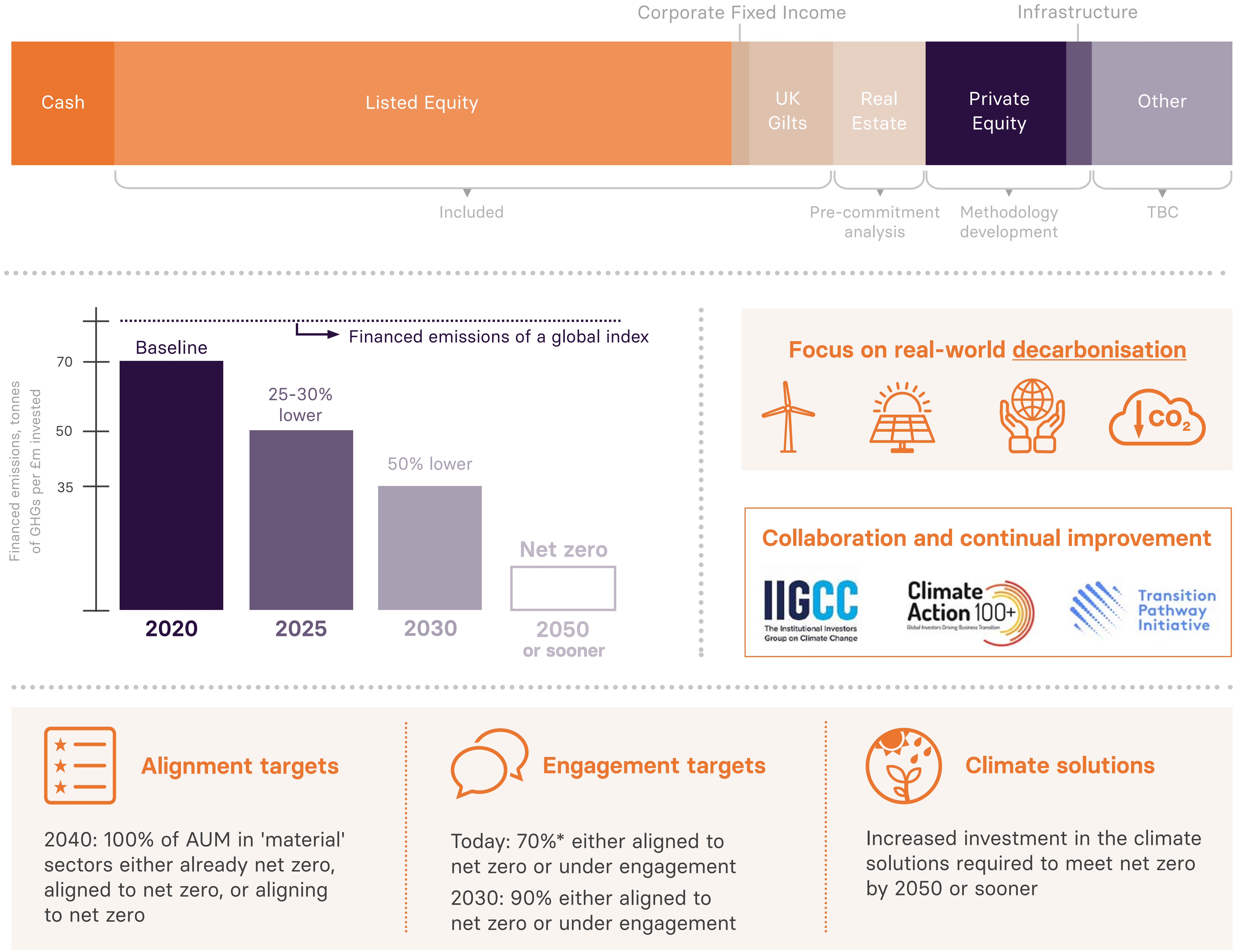


Figure 9: Net zero assessment framework

*Measured by "Financed Emissions"

Our Net Zero Plan is based on the following four pillars, as defined in the NZIF:

- Governance and strategy
- Targets and objectives
- Asset class alignment
- 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, as well as policymakers and regulators. To enable this, we developed our first Net Zero Engagement Plan in 2021 which we update annually.

In 2024, we undertook climate scenario analysis, building on the previous analysis performed in 2020/1.

Case study 8: **Climate scenario analysis - provider selection**

Issue

As part of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, which requires reporting in line with the Task Force on Climate-Related Financial Disclosure (TCFD), our Trustee (RPTCL) is required to undertake climate scenario analysis at least every 3 years.

Scenario analysis was last conducted in 2021, and was therefore due to be undertaken again in 2024. Recognising the limitations of existing climate scenario analyses across the industry, Railpen saw this an opportunity to enhance its work in this area to reap more valuable results.

Objective

At a minimum, the work must meet regulatory requirements – that is, the scenarios need to consider different climate pathways that explore potential future climate policies, interventions and consequences of the world managing or failing to mitigate climate change to different degrees, over a number of time horizons.

We are also interested, however, in the potential for deeper work that can enhance the way in which we approach the climate transition across our FIM teams.

Approach

Early in 2024, we commissioned research into global peer best practices on climate scenario analysis, with an emphasis on how the output from these analyses has informed investment decision making.

That research informed how we specified and procured our own climate scenario analysis, and our assessment of potential providers. We sent a Request for Proposal (RfP) to six potential providers, who were selected to cover a diversity of organisational types, sizes, and existing relationships to Railpen. We conducted briefing calls with all providers, reviewed their responses, and selected our preferred provider: Absolute Strategy Research (ASR).

The selection of ASR was based on several factors, namely its

- open-mindedness and rigour (including a macro-driven approach that complements Railpen's proprietary frameworks and approaches)
- ability to work effectively with our various FIM teams
- potential for ongoing collaboration beyond the scope of the project.

Outcome and next steps

Our work with ASR is ongoing. Full details will be available in our TCFD report in July 2025.

ESG integration by asset class

Our ESG integration methods differ by asset class. 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.

Asset class	Integration
Listed equities	• Sustainable ownership assessment carried out for all companies in our Fundamental Equities (FE) portfolio, with any concerns reflected 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 Climate Action 100+ 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 engagement and relationship building with our managers regarding co-investments, particularly where we have equity ownership
Property	• The Property Sustainability strategy integrates ESG into ongoing asset management, including tenant engagement • 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

In 2024, we continued to deepen our approach to ESG integration across asset classes beyond listed equity. Our work received an award for 'Value Creation LP – ESG' at the Actum Group Awards, with the judges praising the way we engaged with pre-IPO companies as part of our Investor Coalition for Equal Votes (ICEV) work (also see case study 19). Prioritised asset classes continued to be 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, or roles on the Limited Partner Advisory Committee (LPAC). This gives us a powerful opportunity and responsibility to be a good steward of these assets.

Case study 9 (see right) and case study 10 offer further insight into specific examples of post-investment ESG analysis of companies in our Long-Term Income Fund (LTIF).

Case study 9: **LTIF – carrying out due diligence and assessing KPIs for infrastructure assets**

Issue

In 2024, Railpen sought to acquire a 25% shareholding in Verdis (formerly Urbaser Nordic), the leading Nordic municipal waste collection operator.

Verdis has another key shareholder - in November 2023 the company was acquired by Cube Infrastructure Managers (Cube). Since the acquisition, Verdis has been expanding its core municipal waste collection activity. The company is establishing itself as a leader in sustainable operations, with approximately 50% of its truck fleet being electric or biofuel-powered.

Railpen's acquisition of Verdis would mark our first direct infrastructure investment in the Nordics and the municipal waste collection sector, so it was critical that we engaged with both Verdis and Cube to understand their approaches to ESG.

Objective

Prior to the investment, Railpen's SO and Growth Infrastructure Portfolio (GIP) teams implemented our ESG risk assessment process to identify financially material issues.

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

As this was a co-investment, we used our Manager Assessment Framework to understand Cube's approach to ESG integration and active ownership.

Approach

We identified a set of ESG factors for due diligence, including workforce health and safety, labour relations, and GHG emissions. We considered Verdis' current approach and future plans to manage these risks, including factors like fleet migration towards EVs and GHG emission targets.

We discussed Cube's governance of ESG risks and opportunities, how ESG due diligence is undertaken during its investment process, and how the firm engages with investee companies to drive improvements.

Outcome and next steps

Following our analysis of the investment opportunity, Railpen concluded that the ESG risks presented by the investment were manageable.

Since the acquisition, the SO and GIP teams have been working with Verdis to ensure the targets outlined in the company's ESG Action Plan are achieved. To assist with ongoing monitoring, we will also work with our co-shareholder Cube to collect KPIs on material issues, including reportable environmental incidents, labour incidents and health and safety data.

Case study 10: **LTIF – ESG integration | Updating manager assessments in line with ESG due diligence**

Issue

The assets in our Long-Term Income Fund (LTIF) include core infrastructure, renewable energy, and long-lease commercial real estate in the UK. Railpen has worked hard to ensure that it has a reliable framework when identifying which assets are appropriate for our LTIF, including whether they meet emerging regulation and broader ESG risks.

Each of the external managers within Railpen's LTIF presents their own unique opportunities and challenges, from managing assets that had no ESG considerations at the time of investment to overseeing a closed portfolio.

Objective

Railpen has a tried and tested approach to sustainable ownership, so it is important that our external managers align with our principles.

In 2021, we developed a framework to help us assess asset managers and determine whether the quality of their ESG risk management is low, medium or high. This framework is tailored both to the managers' asset class and financing type. In 2024, we expanded our assessment process to include our co-investment partners.

Approach

We assessed four asset managers as part of this project.

We reviewed asset managers' public disclosures, which contain extensive information on investment governance, as well as which ESG factors matter most to their companies. However, we found insufficient detail on fund-specific approaches to due diligence and monitoring.

To fill in the gaps, we sent the managers a due diligence questionnaire (DDQ) that focused on ESG investment beliefs, ESG responsibility, ESG integration (including climate change), post-investment ESG monitoring, and collaborative industry involvement. The questions were drawn from industry standards - in particular, the Principles for Responsible Investment's Infrastructure Investor Responsible Investment Due Diligence Questionnaire.

The DDQ encouraged a consistent approach to ESG disclosure, which was integral for identifying areas of alignment and misalignments between Railpen's and our managers' approaches.

We used responses to the DDQ to inspire further discussions with the managers. For example, opportunities for improved data collection and monitoring of ESG performance and risk. The insights from these discussions helped finalise their scores.

Case study 10 continues on the next page

Outcome and next steps

We summarised how each manager performed across our ESG criteria, including an overview of what had improved, and what still needed monitoring (see right).

We then shared these scores with the LTIF team and the managers themselves. We included follow-up questions and highlighted areas for future monitoring.

	Manager 1	Manager 2	Manager 3	Manager 4
Gross ESG risk	Low	Medium	Low	Medium
ESG risk management quality	High	High	Low	High
Net ESG risk	Low	Low	Low	Low
Details	✓ Implemented an ESG questionnaire, which forms the basis of their asset engagement ✓ Clearer lines of escalation on ESG risk ✗ Limited case studies on ESG integration and active ownership in debt	✓ Retrospective ESG analysis was completed for the portfolio ✓ ESG data collection has improved ✓ Any new deal includes terms on ESG data collecting and reporting ✗ Manager has committed to becoming net zero, but time frames remain unclear ✗ Lack of clarity around how ESG data will be leveraged to create KPIs and/or targets	✓ New head of ESG and clearer reporting lines ✓ Joined an industry collaboration on the collection of GHG emissions data ✓ Improved efforts to educate assets on embodied carbon ✗ Same compliance-driven approach as last year ✗ No retrospective identification of ESG risks and opportunities	✓ Integrated ESG factors into the asset risk matrices ✓ Proportionate inclusion of ESG reporting terms into operations and maintenance contracts ✓ Established ESG KPIs at asset level ✗ Limited examples of ESG due diligence in 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 Scheme, we will consider selling our holding. Prior to 2024, we updated our exclusion lists on an annual basis. In 2024, we enhanced our process so that we are now able to review some of our exclusion lists on a monthly basis.

We continue to update our exclusion lists across the following three categories:

- 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. We refined our approach to screening and engagement in 2024 (case study 11).
- Companies that derive **over 30% of their revenues from thermal coal mining, thermal coal power generation or tar 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. We aim 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 11: **2024 Governance and Conduct Zero Weight update**

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
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 2023, the SO 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.

For 2024, we completed a methodological review of the Gov Z-W process, which included broadening the number of data points in our quantitative screen in the following ways:

- Building out data points around key and critical audit matters.
- Incorporating new metrics on freedom of association
- Enhancing our diversity data points at board level.

The project team undertook a full quantitative screen of our investable universe measuring companies on data points related to the themes of Conduct, Labour risk, health and safety, Governance and Audit.

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
Following the 2024 Gov Z-W process, we placed 12 companies on our exclusion list and put a further five on our watchlist. The decision to do so was formally approved at the Investment and Risk Committee, with the view that those companies placed on the exclusion list could be reinstated 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. Railpen plans to engage with the companies again next year to reassess their positions.

External manager selection and appointment

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.

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.

Please see case study 24 on our engagement with a manager ahead of the 2024 vote at Exxon.

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 SO 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. In 2024, we adjusted responsibilities in the team so that one individual will lead our overall external manager approach. This should help us streamline our approach and ensure that relevant learnings from our engagement with one manager are more efficiently and effectively applied to others.

Please see case study 10 on our work with several Long-Term Income Fund (LTIF) 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 SO 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, Railpen 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:

- Barclays
- Bloomberg
- Exane BNP
- Glass Lewis
- Goldman Sachs
- ISS
- JP Morgan
- Kepler Cheuvreux
- Morgan Stanley
- MSCI
- PitchBook
- RepRisk
- William Blair

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 SO 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[12].

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

Case study 12: **Engaging with potential service providers | Stewardship implementation, monitoring and reporting system**

Issue and objectives

Railpen uses a number of 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 SO team has grown.

We have also explored whether a single solution exists that could make our Stewardship work more efficient and improve the quality of our reporting. As reported in the last two years' stewardship reports, we conducted an initial review of the market in 2022 and a more in-depth review in 2023, with the aim to take a decision and push forward with implementation in 2024.

Approach

As such, we took several key steps in 2024:

- We drew up a comprehensive list of possible providers, and evaluated each of them against a list of requirements that we established in our 2023 stewardship report.
- Following our assessment, we decided that the best approach in the short-term would be to choose an external solution, rather than develop a bespoke system in-house.
- We shortlisted three providers and launched a formal procurement process in which we gathered detailed information and trialled each provider on our shortlist for two weeks.
- Through this rigorous process, we selected a provider in late 2024.

Outcome and next steps

We will begin implementing the new platform in early 2025. This will include the following actions:

- Establishing best practices for using the platform.
- Training the SO team, and any other internal stakeholders that require access, to use the platform.
- Establishing a plan for migrating historical data into the new platform, with a goal to upload this data by the end of 2025.

Once the platform is up and running, we will integrate it into our day-to-day stewardship activities.

IMPACTFUL ENGAGEMENT

Constructive engagement with portfolio companies supports our objective of enhancing long-term investment returns for members. We will engage with companies when we consider it is in 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 SO 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 dialogue with our portfolio companies in order to achieve a specific objective that is in the interest 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 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 Trustee's 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 Priorities** – 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.
- **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 SO.

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 2024, 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[13].

[13] *Please refer to page 49 of the 2021 Stewardship Report for other examples of this process in practice, as well as case study 25 in our 2022 Report for our pre-IPO company engagement work through the Investor Coalition for Equal Votes (ICEV).*

Direct engagement process

The SO 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 dialogues, 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 the FIM team, 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.

Case studies 13, 14 and 15 detail some of our direct engagements with portfolio companies on their most material sustainability and governance issues.

Case study 13: **Cheniere and methane reporting**

Issue

Cheniere is a material holding in our Fundamental Equities portfolios. The company was identified as a priority for our Net Zero Engagement Plan in 2024, with our analysis at the start of the year identifying several issues of concern, including the company's lack of emission-reduction targets and a Transition Pathway Initiative (TPI) Management Quality score of 2.

Objective

As recent investors in Cheniere, we wanted to

- demonstrate our willingness to work constructively with the company
- encourage the company to enhance their climate-related disclosures and develop measurable emissions targets, beginning with Scope 1 emissions.

Approach

We pursued bilateral engagement that included both our SO and Fundamental Equities (FE) teams. Through discussions with the company, we raised our concerns, explaining our rationale and sharing industry peer practices to help the company navigate potential blockers to progress.

While we understood Cheniere's resistance to setting targets without a clear path forward to achieving its goals, we discussed how improved disclosures could enhance its sustainability ratings, including its TPI score.

Through our voting, we also supported the re-election of the Board Chair, while communicating our desire for further engagement.

Outcome and next steps

We are pleased to report that Cheniere has now announced a Scope 1 methane target: to consistently maintain annual methane emissions intensity of 0.03% per tonne of liquefied natural gas produced across its two US Gulf Coast liquefaction facilities by 2027.

While the company recognises methane represents a smaller portion of Cheniere's total Scope 1 emissions compared to CO_2, it also acknowledges that addressing methane is crucial to its competitiveness, particularly in Europe where environmental credentials are increasingly important.

The company also committed to enhancing its disclosures in its upcoming Corporate Responsibility Report, with more transparent information about its emissions mitigation activities and the challenges it faces.

We recognise that there is still more progress to be made on Cheniere's climate strategy. We will continue to engage with the company, primarily through bilateral dialogue, discussing its climate strategy in detail, including its capital expenditure plans for emissions reduction initiatives.

We will also monitor Cheniere's next Corporate Responsibility Report closely to assess its progress on enhanced disclosures and its methane target.

Case study 14: **Reinstatement after an exclusion through our Governance and Conduct Zero-Weight (Gov Z-W) process**

Issue
Investors need to stay abreast of companies with governance failings and misconduct - to avoid or mitigate severe financial risk. Railpen's Governance and Conduct Zero Weight (Gov Z-W) process helps Railpen do this by identifying those companies with 'red flags' and where we think these risks may crystallise in the future.

In order to drive positive change, it's important to also give those companies on the exclusion list clear pathways towards improvement.

Objective
We review our list of excluded companies annually, along with those on the watchlist. Companies that demonstrate a willingness to change and can show substantial improvements can be reinstated. This can be a highly motivational tool for companies.

Approach
As part of the 2024 Gov Z-W engagement cycle, we spoke to three companies that had made significant progress in the previous year, but that we had not yet felt comfortable to remove from our exclusion or watch lists.

Case study 14 continues on the next page

When deciding whether to reinstate the companies, we considered many factors, including:

- willingness to engage in constructive dialogue
- efforts made towards fixing or mitigating against the issue
- approach, compared to its peers.

The results of our assessments are shown in the table (right).

Outcome and next steps

Following the engagement process, we removed all three companies from our exclusion list. This decision was discussed as a team and approved by our Investment and Risk Committee.

We communicated the outcomes and the rationale to the companies involved, reinforcing the value of the process and helping create a foundation for any further discussions that we may wish to have with these companies.

Please also see case study 11.

Company	Reason for previous exclusion	Railpen's updated assessment	Decision
A South Korean manufacturer of offshore drilling vessels and crude oil tankers	Poor health and safety performance and governance concerns.	The company had demonstrated substantial improvements in health and safety - this year saw no fatalities or serious accidents for three years in a row and it hit long-term targets for accident rates. Its safety record significantly outperforms the broader Korean shipbuilding industry. It has made improvements on Board independence, introducing a senior independent director and removing the CFO from key committees.	Remove from watch list
A Chinese company engaged in mineral resource exploration and processing	Concerning community relations, labour rights, and safety incidents	The company's governance is now meeting global standards. As per our request, the company produced a 2023 report in which it transparently disclosed the cause of a mine shaft accident that resulted in contractor fatalities, including proposed actions. It has established a three-year action plan for safety system enhancement, which will include a focus on contractors' training and 'red flag' identification.	Remove from watch list
A South American metals and mining operator	Significant fatalities caused by dam collapses	Good progress on governance around joint ventures in line with our previous feedback. It was willing to engage in person and provide access to its Lead Independent Director. We remain concerned about Board behaviour and management during recent changes of both Board and senior staff. We wish to monitor carefully its future board interactions and decision-making.	Remove from exclusions, add to watch list and seek engagement directly with the Board

Case study 15: **Engagement – Assa Abloy's approach to climate risks and opportunities**

Issue

Assa Abloy – a Swedish company specialising in door opening and access solutions and services – is held in Railpen's actively managed strategy, through our Fundamental Equity Portfolios.

Following years of engagement with our Fundamental Equities team, Assa Abloy invited Railpen to share our view on its approach to ESG risk and opportunity management. The company planned to include our insights in its next Sustainability Report.

Objective

Railpen aimed to review Assa Abloy's ESG initiatives, giving recognition for strong ESG management and progress where it was due. We also sought to highlight areas where challenges could arise, requesting relevant information to further enhance our understanding of the risk.

Approach

During the review process, we commended Assa Abloy's progression toward its 2025 sustainability targets, which is reflective of buy-in from the executive team. We also recognised the company's long-term commitment to reach net zero by 2025, which are substantiated by decarbonisation strategies. However, we did voice concerns over the challenge of reducing a carbon footprint that is predominantly comprised of Scope 3 emissions. We therefore recommended the disclosure of viable emission reduction mechanisms and key costs through more detailed TCFD reporting.

"We recognise that Assa Abloy's management is shifting its mindset from risk management to looking at the commercial opportunities for sustainability, such as access solutions that enable clients to reduce their emissions," said Matthias Eifert, Head of Fundamental Equities at Railpen. "It would be good to see this quantified in the next set of targets. For example, a percentage of sales from low carbon products or with environmental certifications."

Outcome and next steps

Railpen's insights and recommendations were published in Assa Abloy's 2023 Sustainability Report[14]. Following this, we sought to deepen our discussion on the material topics highlighted, with a particular focus on how to achieve Scope 3 targets faster while remaining considerate of the potential commercial impacts of doing so.

While we are reassured that Scope 1 and 2 targets can be achieved with minimal expenditure, Scope 3 emissions from raw materials remain the primary driver of Assa Abloy's footprint. This is therefore the most challenging to reduce.

Railpen plans to continue reviewing the feasibility of emissions reduction levers through Assa Abloy's Scope 3 Plan. We also recommended the addition of a KPI on supplier engagement to help monitor progress.

[14] *Assa Abloy's 2023 Sustainability Report can be found online.*

Collective engagement

Direct engagement can be a powerful stewardship tool. However, combining Railpen's voice, influence and expertise with 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[15].

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

- 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. 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.

Case study 16, 17 and 18 provide provide insights into our work as part of core collaborative engagement initiatives on priority issues in 2024.

Initiative	Railpen role (2024)	Alignment with core thematic priorities
Amsterdam Coalition (remuneration)	N/A (no engagements in 2024)	Sustainable Financial Markets
C6 (diversity at USA companies)	N/A (no engagements in 2024)	Worth of the Workforce
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 climate lobbying working group	Co-chair	The Climate Transition
IIGCC adaptation and resilience working group	Co-chair	The Climate Transition
Investor Coalition for Equal Votes (ICEV)	Chair and Operational Lead	Responsible Technology/ Sustainable Financial Markets
Investor Forum	Participant	Sustainable Financial Markets
Net Zero Engagement Initiative	Participant	The Climate Transition
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

15 *Please also see Identifying material public policy debates and interventions.*

Case study 16: **Collective engagement | Cybersecurity report**

Issue
In recent years, the number and severity of cyberattacks have increased dramatically. In the past year, 29% of organisations have been materially affected by a cyber incident, according to research by the World Economic Forum. The average cost of a data breach stands at US$4.88 million, according to IBM.

This risk will keep growing, driven in part by evolving threats posed by geopolitics and AI, as well as technological interdependencies.

Cyber resiliency might not be a top priority for investors when building and reviewing their portfolios – but Railpen believes the evidence shows that it should be, given its materiality to financial performance.

Objective
In 2019, Railpen and Nest joined forces on a report into why UK pension funds should consider cyber and data security in their investment approach.

Soon after, Royal London Asset Management set up a Cybersecurity Coalition to address the systemic risks around this thematic stewardship issue. Railpen is a contributing member, alongside Nest, USS, Border to Coast, and Brunel Pension Partnership.

Over the course of our engagement, it became increasingly apparent to us and other members of the Coalition that many investors had not yet fully understood the need to engage with, or how they should engage with, portfolio companies on cybersecurity.

Approach
As outlined in case study 1, Railpen recognises its responsibility as a large asset owner to play a leadership role in the industry. We believe guidance for investors (and, often, for companies) is a key tool for raising industry standards, especially considering the rapid pace of change in regulatory and market practices.

In 2024, Railpen and Royal London published a joint report: Cybersecurity Risk & Resilience: guidance for investors. This serves as an industry call to action, providing an evidence-based perspective on the financial materiality and threat landscape of cybersecurity risk and practical guidance for investors as they engage with portfolio companies. serves as an industry call to action, providing an evidence-based perspective on the financial materiality and threat landscape of cybersecurity risk and practical guidance for investors as they engage with portfolio companies.

The report outlines expectations that can be used by investors as a tool to assess companies' baseline approach to cybersecurity and measure their progress towards best practice. Our expectations provide a tool to elevate stewardship from reactive engagement after a cyber incident to proactive dialogue on resilience. These expectations are based upon four pillars:

1. Governance
2. Supply chain and mergers and acquisitions
3. Processes, culture and training
4. Collaboration

In line with the evidence base, our joint report encourages investors to:

- recognise the financial materiality of cybersecurity to their portfolios
- assess companies' baseline approach to cybersecurity and measure their progress towards best practice
- identify and engage with companies that face high-risk exposure
- participate in policy advocacy on cybersecurity.

Outcome and next steps
Having published the report, Railpen will continue to:

- engage with companies that face high cybersecurity risk
- work with other asset managers and owners through the Cybersecurity Coalition
- assess opportunities for engaging with policymakers to help companies improve both their cyber disclosure and practice.

Case study 17: **Our 2024 work on workforce issues**

Issue

Evidence shows that a motivated, engaged, fulfilled and well-trained workforce is necessary for sustainable financial returns, as well as being desirable in itself.

Railpen supports the establishment of consistent, clear and comparable reporting standards that show investors how portfolio companies are supporting, training and motivating their workforces.

But whilst there is much to commend in reporting by listed companies, workforce information varies in scope and often lacks relevant data, meaningful context, connection to company strategy, and improvement plans.

Objective

In 2022, Railpen collaborated with the Chartered Institute of Personnel and Development (CIPD), the Pensions and Lifetime Savings Association (PLSA) and High Pay Centre to produce the December 2022 report Worthwhile Workforce Reporting: Good practice examples from the UK's biggest companies.

This guidance gave portfolio companies concrete examples of what good practice looks like (and why investors deemed this good practice). We shared this with companies where we considered there to be additional scope for improvement, and held follow-up discussions with them to incorporate their learnings into future reporting.

In 2024, and with a new UK government considering further policy work on workforce disclosure and treatment, we thought it was time to remind companies as to our perspective and guidance on good practice workforce disclosure.

Approach

Noting the likely future public policy focus on workforce issues, and the continued needs of investors, we sent a formal letter in Autumn 2024 – together with the PLSA and CIPD – to the chief executives of FTSE 350 companies (the UK's largest companies) enclosing our guidance. The letter asked for improvements in the quality of workforce reporting and suggested practical suggestions for how this should be done.

Specifically, it called on companies to review and update their disclosures in relation to four key areas:

- Workforce composition
- Employee relations and wellbeing
- Reward and recognition
- Skills and capabilities

This initiative also aligned with our ongoing work in setting up and leading the Workforce Directors Coalition, which was created in 2023 to encourage companies to engage meaningfully with their workforce, including through the use of workforce directors[16].

Outcome and next steps

We've received positive responses from many FTSE 350 companies. Our next step is to leverage this correspondence and our guidance as a platform for deeper engagement on workforce reporting with key holdings in our portfolio.

Additionally, we're engaging with policymakers on reform measures and the upcoming UK Employment Rights Bill. By combining investor advocacy with practical guidance, we're working to enhance corporate disclosure and practice in a way that benefits companies, workers, and investors alike.

16 *Discover more about the Workforce Directors Coalition on Railpen's website.*

Case study 18: **Air Liquide | Scoping alignment with CA100+ targets**

Issue

Air Liquide is an industrial gases company held within Railpen's Quantitative Strategies Portfolio. We identified the company as a significant greenhouse gas emitter through our Net Zero Engagement Plan.

Consequently, we became a contributing investor of the Climate Action 100+ group that has been in dialogue with the company for five years. Engagement topics have included climate target setting, incorporation of climate-related risks in financial accounts, and transparency regarding lobbying activities.

Objective

Air Liquide's 2024 AGM provided us with a strategic opportunity to advance the company's climate commitments. As part of the ongoing dialogue, the lead investors raised three climate-related questions on behalf of the group at the 2024 AGM. These questions intended to demonstrate unified investor concern and secure public commitments from Air Liquide on enhancing emissions targets.

In alignment with the Climate Action 100+ group, Railpen became a signatory to the joint questions.

Approach

At the AGM, the lead investors first acknowledged the considerable progress the company has made already. This includes establishing initial climate targets in 2018, committing in 2022 to carbon neutrality across its entire value chain by 2050, incorporating climate risk assessments in its accounts in 2023, and increasing transparency around Scope 3 emissions and lobbying activities in 2024.

To further understand Air Liquide's transition plan and reinforce the financial materiality of this topic, the lead investors posed three targeted questions:

1. Would Air Liquide commit to having its Scope 3 objectives verified by the Science Based Targets initiative (SBTi) – or set separate targets before the 2025 AGM?
2. Can it give more precise quantification of its decarbonisation approach, particularly regarding Scope 3 emissions and investments in existing assets?
3. How is it progressing toward the 2025 and 2035 objectives? And are more ambitious goals appropriate given the IPCC's recommendation for a 43% emissions reduction by 2030, compared to Air Liquide's target of 33% by 2035?

Outcome and next steps

Air Liquide responded to all the questions submitted by the CA100+ group:

- On SBTi verification, it is working with chemical sector experts but cannot yet commit as the methodology may not suit its business model. Regarding its implementation plan, it outlined its three-pillar CO_2 reduction strategy (low-carbon energy sourcing, CO_2 capture/storage, and asset management) and committed to publishing a comprehensive transition plan by 2025.
- On its progress, it reported a 33% carbon intensity reduction from its 2015 baseline and a 4.9% decrease in Scope 1+2 emissions compared to 2020.

Railpen will continue to support the group's engagement with Air Liquide and looks forward to monitoring the company's progress.

Collective engagement beyond listed equity

We recognise that collective engagement in asset classes beyond listed equity is still evolving. Case study 19 (right) highlights Railpen's work in 2024 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 below 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 research and practical guidance to support other investors in their own engagements on specific themes and in under-explored asset classes.

Case study 19: **The Investor Coalition for Equal Votes (ICEV) | Progress in 2024**

Issue

We previously reported on the work we've done in pushing back against dual-class share structures (DCSS) at portfolio companies. This work, which includes engaging with pre-IPO (private) companies, is key to improving corporate governance standards and ensuring there is a safety net allowing investors to use their voting power, where necessary, to hold company management to account.

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

ICEV has made significant progress since its founding in summer 2022. However, the complexity of the issue and the entrenched nature of some of the interests of financial market participants, mean ICEV will be a multi-year and multi-phase engagement.

Approach

ICEV considers unequal voting rights to be a system-wide topic. Because of 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 speak to companies at a point in their lifecycle where they are still open to conversations on their capital structure (i.e. before they obtain a public listing).

We made the following progress in 2024:

- **We continued to grow our assets under management (AUM)**, welcoming more asset managers and asset owners as well as our first 'supporters': the International Corporate Governance Network (ICGN) and the Australian Council of Superannuation Investors (ACSI). Having started with $1.3 trillion AUM, we had grown this to $4.5trillion AUM by the end of 2024.
- To increase the chance of our voice being heard, **we widened the scope of our pre-IPO engagement targets** in our 'phase 2' engagements. This includes both the number of companies we target and the people within them, such as board members, board observers and, for the first time, key investors.
- We also **responded quickly to situations involving companies that are significant or closely watched**, who were considering unequal voting rights. We sent a private letter to Reddit ahead of their IPO and wrote an op-ed for the Financial Times. We also issued a statement on Tesla's proposed reincorporation in Texas.
- **In 2024, our standalone ICEV website went live**, acting as a useful tool for spreading our message and attracting members.
- Finally, **we published a well-received report,** Voting on Voting Rights. The report includes excerpts of the voting policies of 31 of the world's largest asset owners and managers, providing insights both to investors who are thinking about their own voting policies and pre-IPO companies who want to understand how listing with unequal voting rights could affect their relationships with institutional investors.

Outcome and next steps

We achieved impact in 2024, including some companies we engaged with committing to listing with – or maintaining – a single-class share structure. However, we recognise there is much more to do to achieve real impact on such a complex and entrenched issue.

In 2025, we will continue to focus on the following:

- engage proactively in priority markets
- grow ICEV's membership
- react nimbly to situations like Reddit and Tesla.

We will also consider actions we could take during our AGM season, how we could engage with investors who back dual-class IPOs and follow up with advisers we have not yet spoken to, considering escalation where this might be effective.

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 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[17]
- 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[18]

These 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.

Within other asset classes, we will approach escalation on a case-by-case basis alongside portfolio managers. The exercise of our vote is an 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 20, 21 and 22 outline examples of our taking further action across our listed equities portfolio in 2024.

[17] *You can find the list of public statements on the Railpen website at AGM Statements (railpen.com).*

[18] *For further details on our exclusions processes, please see case study 11.*

Case study 20: **Workforce Directors Coalition (WDC) | AGM questions for companies**

Issue

The appointment of workforce directors can be an effective tool for ensuring the views of employees are directly heard and considered at Board level.

Workforce directors, however, remain an underutilised approach. Despite being one of the three options outlined in the Stewardship Code, the concept of workforce directors remains poorly understood – particularly in the US.

In mid-2023, the Workforce Directors Coalition (WDC) launched, producing guidance on workforce directors and encouraging companies to consider appointing one or more workforce directors as an effective workforce engagement mechanism[19].

In 2024, Railpen targeted 11 companies across the UK and US that had incidents of poor workforce engagement, dissatisfaction among their workforce, or whose peers had elected workforce directors.

Approach

Railpen set out to engage on the workforce director model with the selected companies. We planned to explore workforce engagement and worker voice mechanism in place at the companies, while demonstrating investor support and clearing up common misunderstandings of implementing workforce directors.

Where companies did not respond to our initial outreach, we escalated to ask an AGM question, utilising the shareholder right to encourage the company to consider the workforce director model and request a meeting.

Outcome and next steps

The AGM questions allowed us to meet with an additional three companies. We were able to have productive conversations on worker voice and workforce engagement with the companies, often with greater detail provided by company representatives on internal processes than is available publicly.

Building on this momentum, we're drafting our 2025 company engagement list to extend the conversations we're having with companies about workforce directors. We believe the UK government could further this agenda by encouraging regulators to strengthen guidance in regulatory frameworks like the UK Corporate Governance Code.

19 *Discover more about the WDC on Railpen's website.*

Case study 21: **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 some CA100+ participants, we have continued to raise the issue of climate lobbying with the company.

In December 2023, Railpen co-filed a shareholder resolution on this subject in time for the 2024 AGM. The resolution sought an expanded review and disclosure of NextEra's lobbying activity in relation to climate change.

The subsequent 2024 vote received a relatively high level of support – over 30%. This helps demonstrate the widespread investor concern on this issue.

Outcome and next steps
We have continued to engage constructively with NextEra on this topic. We are sharing best practice from peers as well as insights into what investors expect, and we hope to see improved disclosure soon.

Case study 22: **Vote pre-declaration approach and use at Equinor and Mears Group**

Issue and objective

Railpen believes in using all its ownership and adjacent rights during AGM season in its stewardship work, not just the right to vote.

Vote pre-declaration – that is, announcing voting intentions publicly before an AGM – can be used to highlight concerns, or as a show of support for management.

Railpen identified international energy company **Equinor** and housing solutions provider **Mears Group** as priority companies for thematic engagements due to their respective circumstances: climate transition and workers' voice issues.

Approach

The climate transition is a critical issue for Railpen and our members. **Equinor** has shown sectoral leadership in many aspects, including in relation to its Scope 1 and 2 emissions performance. But in 2024, we grew concerned that Equinor's strategy and capital expenditure were falling short. In particular, we were disappointed at its plan to maintain stable fossil-fuel production to 2035 and to continue new reserve exploration and development plans. As a key player in the sector with a strong and supportive shareholder base, we believe that Equinor can show true leadership in this area.

Mears Group is a long-standing holding of Railpen's. The company is also one of a small number of UK PLCs that has appointed employee directors to its Board. For the right company, appointing workforce directors can improve the cognitive diversity of Boards and make workers feel heard. This can help create the motivated workforce that is vital to a company's long-term value creation.

However, many investors have a knee-jerk negative response to workforce directors and their impact on the independence of company Boards. We therefore think that companies implementing a positive approach to workforce directors should be visibly supported, where possible.

Outcome and next steps

Railpen used vote pre-declaration to amplify our voice at the two companies' AGMs:

Equinor

With Equinor's AGM approaching, we pre-declared our intention to back a shareholder resolution calling for the company to align its strategy and capital expenditure with its commitment to the Paris goals, and specify how any plans for new oil and gas reserve development are consistent with the goals. We publicised our intentions on social media and issued a pre-declaration document setting out our concerns.

Thirty-two per cent of non-state votes were cast in support of the resolution.

The Australasian Centre for Corporate Responsibility (ACCR) referred to the vote as both a 'revolt' and a 'wake-up call for Equinor's Board and management'. It concluded that 'the pressure on them to deliver real reductions in emissions will only increase from here'[20].

Mears Group

The workforce director model will not be right for every company, but we want to encourage more companies to consider it. We also want to encourage other investors not to take an overly strict approach to director independence, but rather to think about the Board holistically, including the potential benefits of directly incorporating the perspectives of a member of the wider workforce into Board discussions.

That's why we pre-declared our intention to vote for the election of director Jim Clarke in his capacity both as Chair of the Board and of the Nominations Committee.

We believe that Mears Group is to be commended for its clear commitment to the workforce director model. By signalling our active support, more companies will be aware that investors may support the workforce director model, where meaningfully applied.

[20] *Discover more about the Equinor AGM on ACCR's website.*

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 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 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 SO team undertakes all voting and engagement activities, including monitoring of the activities in our portfolios. The Global Voting Policy is reviewed every year in a discussion between the SO team and key individuals in the FIM team.

Case study 23: **2025 Voting Policy update**

Every year, Railpen updates its Global Voting Policy to reflect market developments and enhance our approach to stewardship. 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.

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

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

An emerging challenge is ensuring that shareholders' voices continue to be heard as the regulatory landscape evolves. Our 2025 policy update, published in December 2024, addressed this challenge, emphasising our strengthened defence of shareholder rights in the wake of changes to the UK listing rules and the adoption of the EU Listing Act – both of which weaken investor protections.

Some companies have already started taking advantage of new listing rules around, for instance, significant transactions and related-party transactions (RPTs). We were keen to discourage others from doing so, so we strengthened our Global Voting Policy with specific new lines on these areas to protect shareholder value.

New lines on these issues included:

- "We will vote against company plans to move or re-register to locations with weaker investor protections, unless they can provide substantial reasoning for doing so."
- "We will reject attempts to shield company officers from being held responsible for mistakes or neglect. We believe holding executives to account is an important shareholder right."

The 2025 Voting Policy update continues our commitment to using our full ownership rights to ask for positive corporate governance practices and protect long-term shareholder value for the £34 billion railways pension schemes we manage.

Given the UK-focused nature of these policy updates, we distributed our 2025 Global Voting Policy not only to our priority holdings (as usual) but also specifically to FTSE 350 companies for the first time. Our covering email emphasised our new lines on significant RPTs and significant transactions, urging companies to continue putting such transactions to a shareholder vote and emphasising that we share their goal of long-term value creation.

We were also pleased to reference the latest PLSA voting guidelines, which echoed our update on RPTs and significant transactions, to demonstrate wider investor concerns.

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 SO 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 into 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 in a pooled fund. 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. We inform our external managers of those criteria that we considered to constitute a 'most significant' vote so they can make an informed decision regarding 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 the section on stock lending on page 67).

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 SO 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 FIM (COFIM).

2024 voting statistics

Meeting overview

Category	Number
Votable meetings	1,426
Meetings voted	1,424
Proxy contests voted	1
Meetings with against management votes	805
Meetings with against ISS votes	646

Number of meetings voted	1,424
Percentage of meetings voted	99.9%
Percentage of meetings with at least one vote against, withheld or abstained	56.5%

Figure 10: Votable meetings (source: ISS 2024)

Alignment with management

- Comparing vote cast alignment with management recommendations highlights similarities and differences between your governance philosophies and the investee's approach to key corporate governance issues.
- The votes cast on Railway Pension Investments Ltd during the reporting period are aligned with management recommendations in 89% of cases, while the ISS Benchmark Policy recommendations are at 96% alignment with management recommendations.

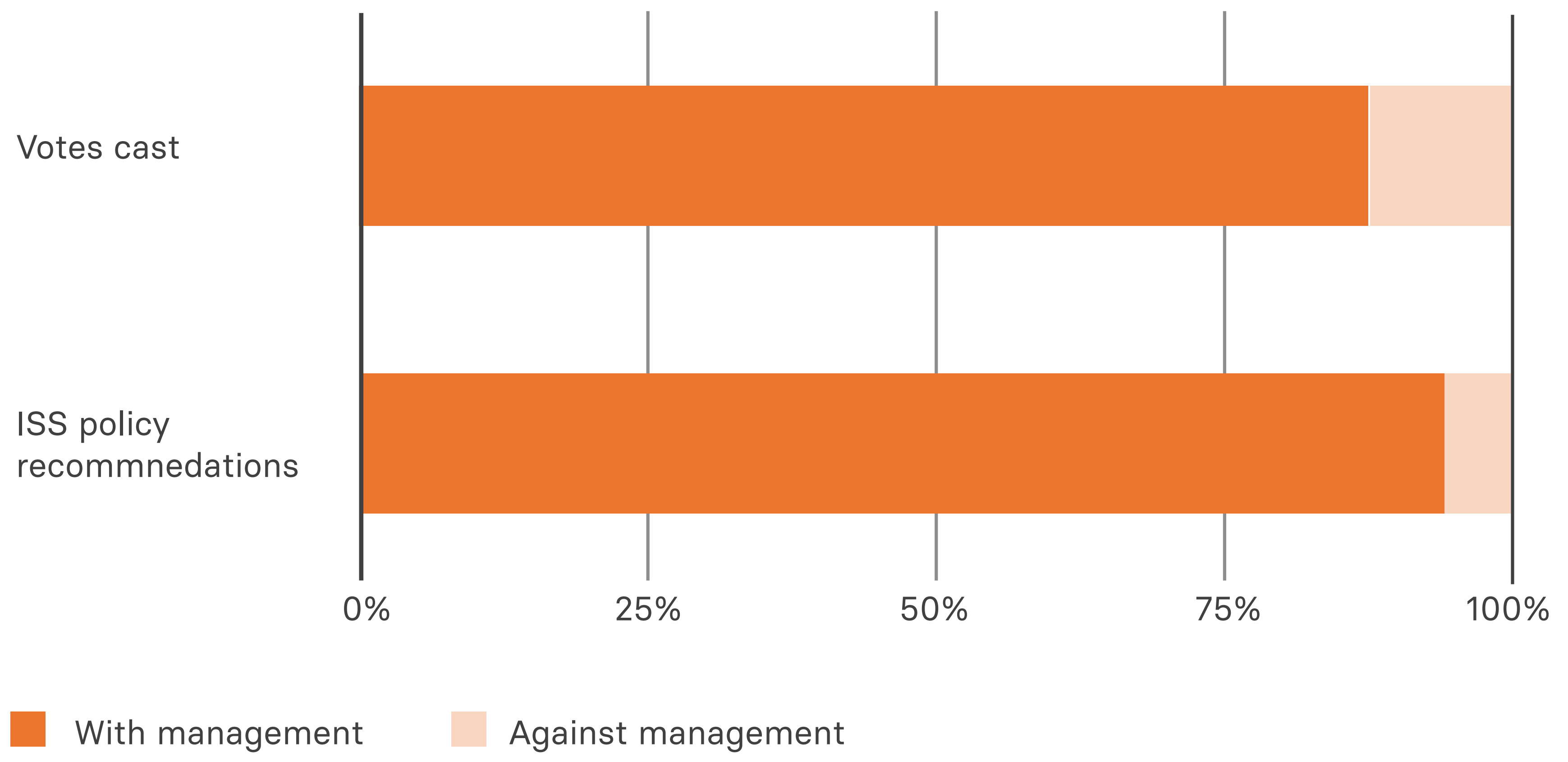


Figure 11: Votes cast (source: ISS 2024)

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 environmental matters, where only 62% of votes followed management recommendations.
- Across categories, votes cast on management proposals show the closet alignment to the ISS Benchmark Policy guidelines.

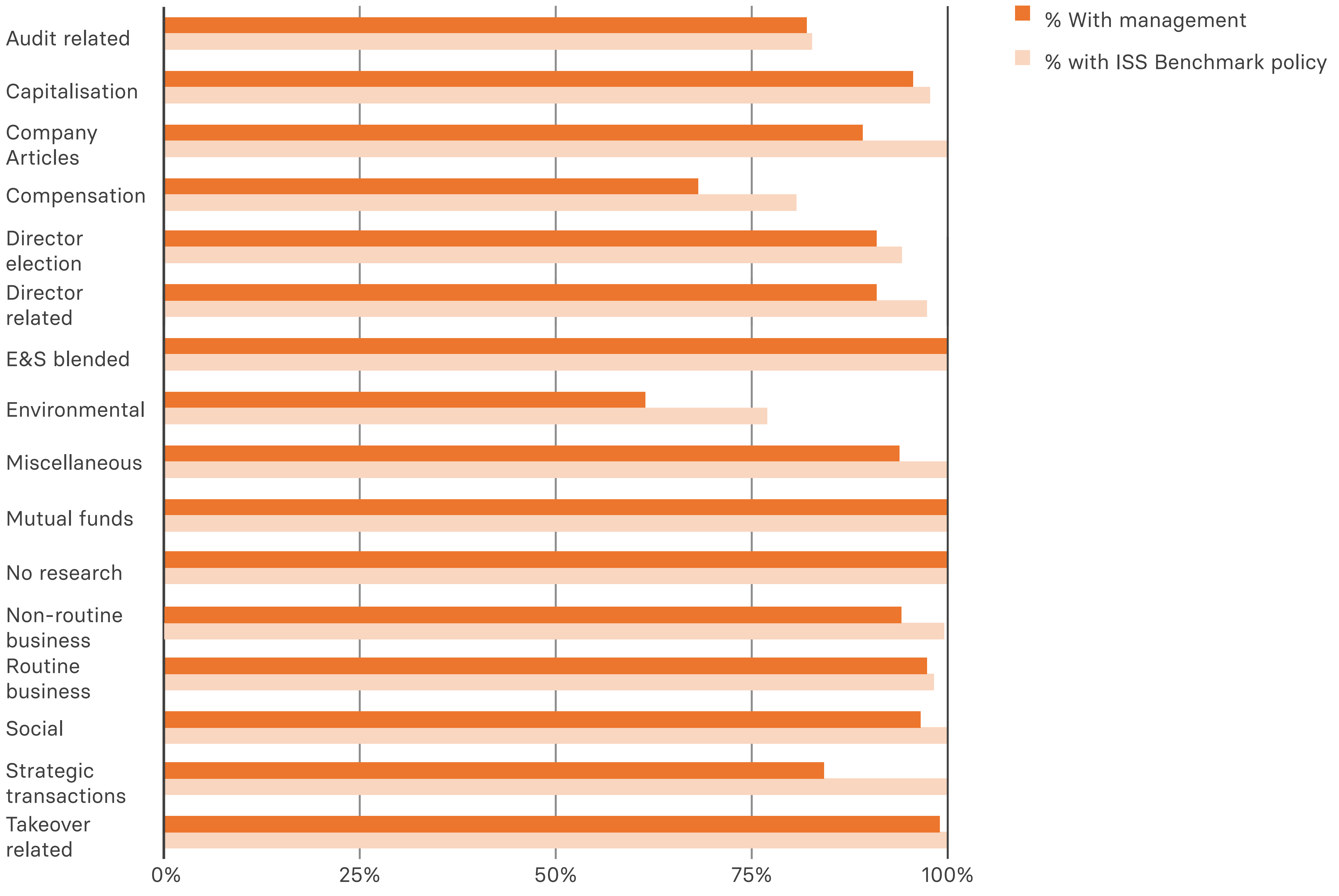


Figure 12: Votes cast on management proposal categories (source: ISS 2024)

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 Non-Routine Business, Routine Business, at 100% and the lowest level of support for shareholders proposals related to Audit Related, Company Articles, with 0% of proposals supported.
- Across categories, votes cast on shareholder proposals show the closest alignment to the ISS Benchmark Policy guidelines.

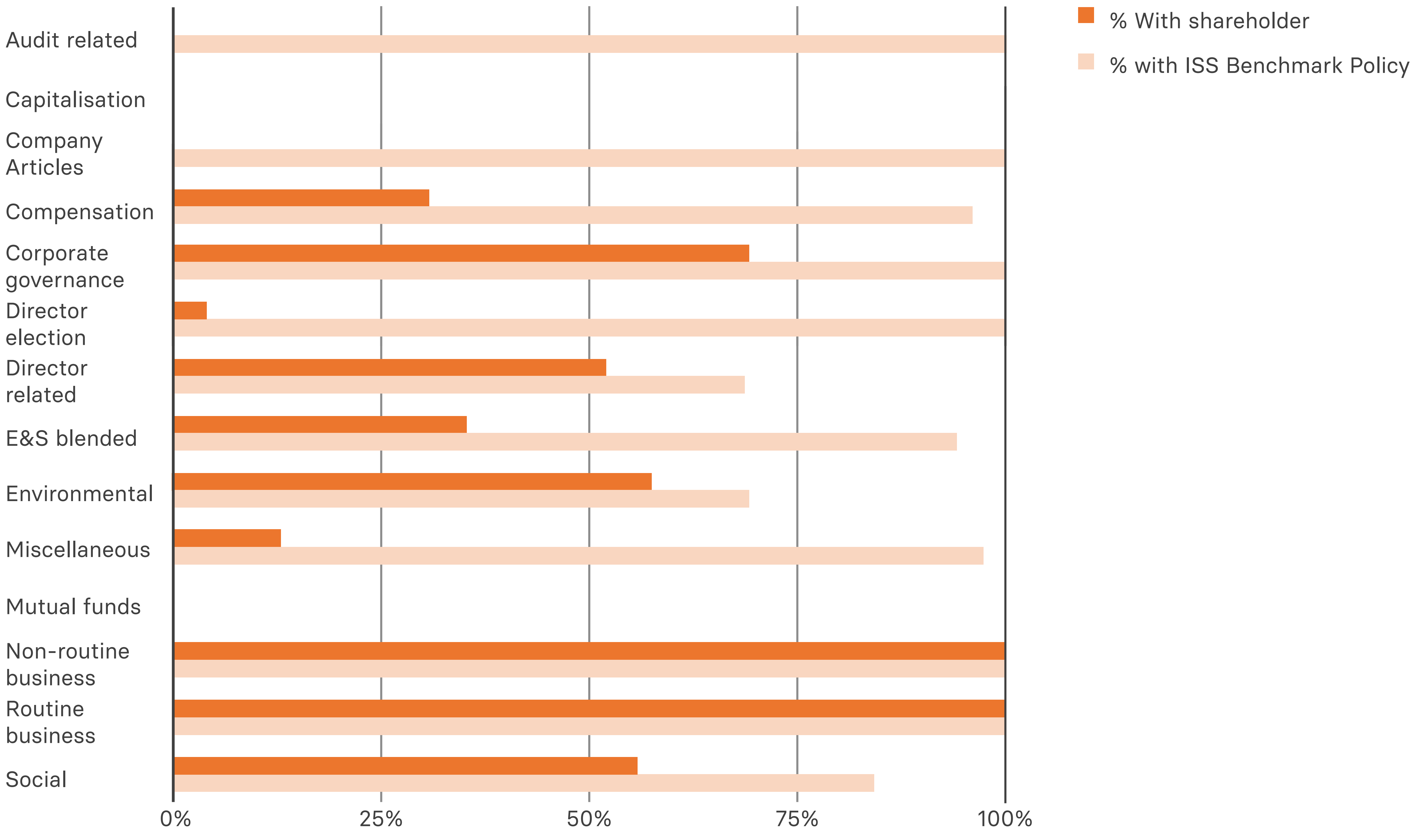


Figure 13: Votes cast on shareholder proposal categories (source: ISS 2024)

Most significant votes

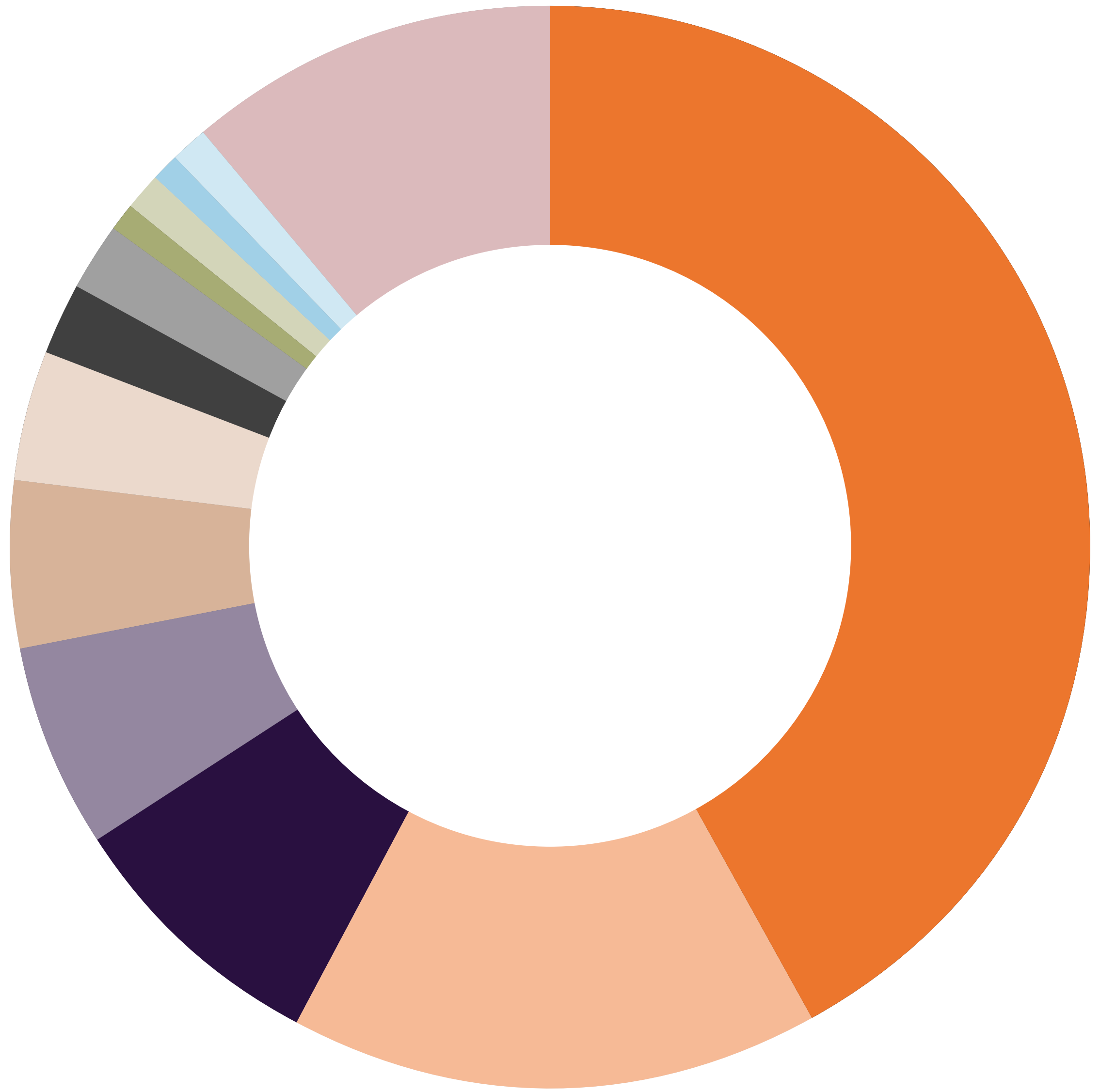
Every voting decision is undertaken in a considered way. However, we prioritise our analysis and resource on those votes that are the most material to the portfolio and where exercising our vote is most likely to benefit members.

In determining what constitutes a most significant vote[21], Railpen considers criteria provided by the PLSA in its Vote Reporting Template but also its own criteria that includes the following types of 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 2024, this included:
  - workforce treatment
  - remuneration
  - auditor tenure
  - Board composition and effectiveness
  - climate change
  - votes on high-profile shareholder resolutions.

[21] *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'.*

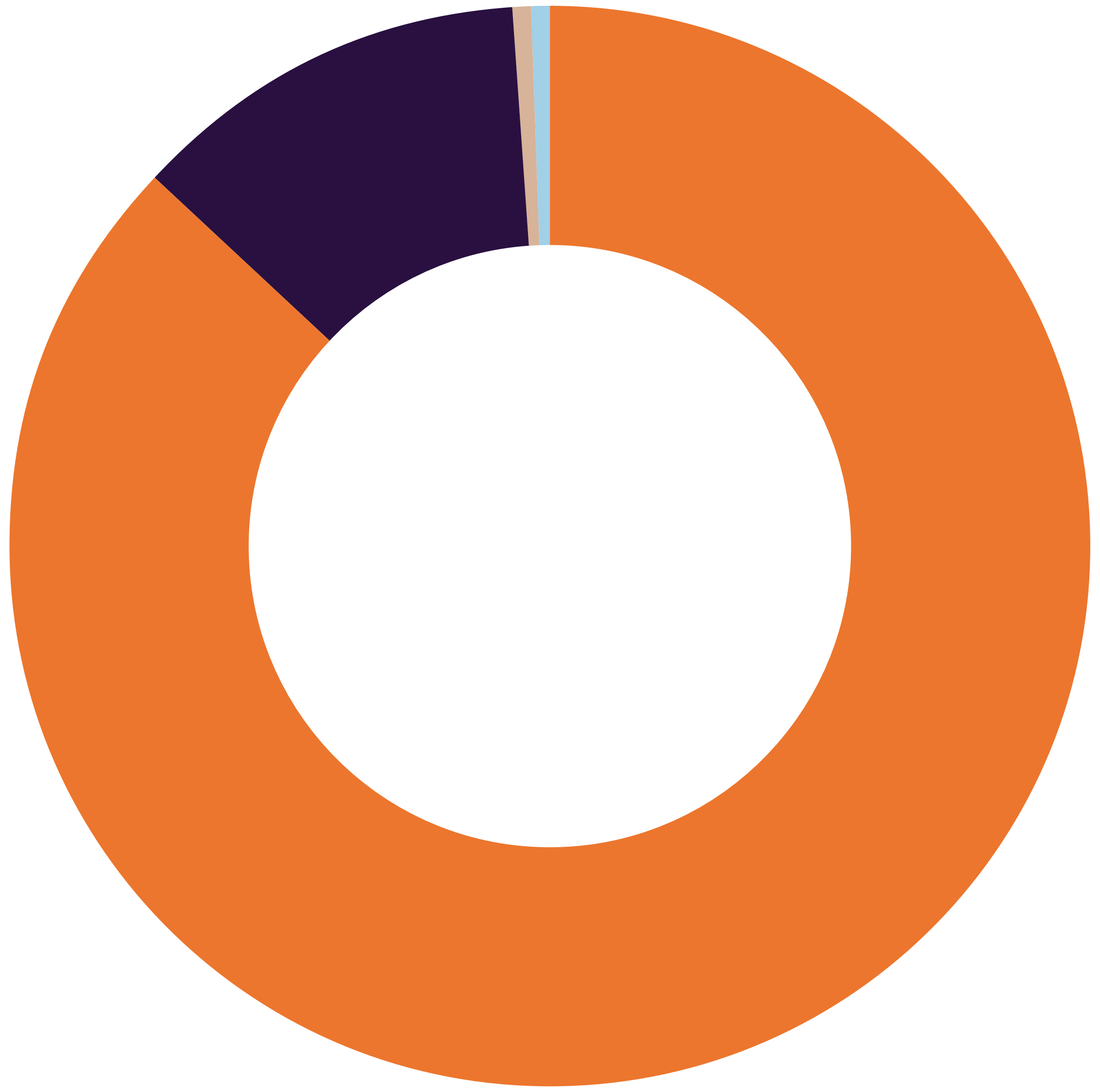
Meetings voted by market



UK	42%	France	2%
USA	16%	Switzerland	1%
China	8%	Taiwan	1%
India	6%	Ireland	1%
Japan	5%	Netherlands:	1%
Guernsey	4%	Other markets:	15%
Jersey	2%		

Figure 14: Meetings voted by market

Voting outcomes



For	87%
Against	12%
Abstain	0.4%
Witheld	0.5%

Figure 15: Voting outcomes

Priority issue: Shareholder rights

As part-owners of the companies they invest in, holders of equity shares generally receive certain rights. These rights vary by jurisdiction, but generally include the right to:

- exercise a vote and attend an AGM
- transfer ownership
- claim dividends
- inspect information, such as corporate documents
- sue for wrongful acts, such as breaches of the duty of care
- pre-emption upon the allotment of shares.

These are key shareholder rights and important protections for our investments, and ultimately, the value of members' savings. Railpen and the Trustee take any attempt by policymakers or companies to roll back shareholder protections seriously. We use the full suite of stewardship tools at our disposal to make our views heard. We articulate one way in which we sought to do so – even where we did not have formal voting rights – right, but also see case studies 24 (see right) and 28.

Case study 24: **Exxon vote | Standing up for shareholder rights**

Issue

Railpen believes that the right of shareholders to file proposals is a fundamental one.

In January 2024, Exxon Mobil took legal action against shareholders Follow This and Arjuna Capital for filing a climate resolution, instead of going through the usual regulatory process. Railpen believed that this represented a significant attack on shareholder rights, with potentially wide-ranging impacts. If shareholder advocacy were successfully undermined this way across the US market, an increasing number of companies could defer to the court system to settle disagreements on shareholders' proposals.

It is Railpen's view that the US Securities and Exchange Commission (SEC) is best placed to lead discussions between companies and investors on how to improve the proposal process.

Objective

Exxon is a high-profile company and, where it goes, others follow. This means that, although it is only one company, it is of systemic importance.

Railpen therefore wished to make our views clear, both as a shareholder and more generally. However, as our only holding was through an external manager and in a fund where we could not exercise our voting rights directly, we had to find other ways to make our views known.

Approach

Although we could not exercise a voting decision directly, we advocated for the cause in numerous ways:

- we engaged with our asset manager ahead of the vote, stating our concerns about the potential chilling effect on US shareholder democracy
- we joined forces with asset owners and managers (representing USD$5.2 trillion in assets under management) by signing the Investor Statement on Shareholder Rights in May 2024
- our SO team also sought to raise the issue on social media, calling for asset managers to consider how they use their voting and other powers to protect investor rights and align with the interests of their asset owner clients.

Outcome and next steps

Several shareholders voted against the Exxon directors – and pre-declared to market their intention to do so – to express their strong disapproval of the company's decision to pursue a lawsuit.

Exxon's decision to take this step is only one way in which, as Railpen noted at the time, "corporates are continuing to test shareholder rights". We will continue our work to advocate for robust investor protections and a strong Rule of Law which supports shareholder voice mechanisms.

Priority issue: nature and biodiversity

Companies across our portfolio face substantial risks relating to nature and biodiversity. Failure of a company to fully understand, assess and manage its dependencies and impact on nature could create financial and regulatory risks for a company. As a globally diversified asset owner, we also recognise that biodiversity and nature loss are global systemic risks, which therefore carry a wider threat to the effective functioning of our economies and societies.

We encourage companies to consider how they can better account for nature-related risks and redirect capital allocation towards nature positive outcomes. As well as including biodiversity and natural capital impacts in our assessment of a company's climate transition plans, we will consider voting in support of resolutions which seek to encourage companies to assess their dependencies and impacts on biodiversity in order to address drivers of biodiversity loss. This includes deforestation, packaging and pollution, water usage and pesticides.

Case study 25: **PepsiCo – biodiversity**

Issue

Half of the world's GDP is dependent on nature, according to the World Economic Forum. The organisation also cites that the food industry alone relies on natural services worth US$1.4 trillion.

For PepsiCo, a $204 billion snack and beverage giant, biodiversity is therefore a business imperative. The company is held in Railpen's Quantitative Strategies portfolio and is part of our annual Net Zero Engagement Plan (NZEP) focus list of companies. Railpen looks for engagement opportunities with these NZEP companies throughout the year, including at their AGMs.

Objective

If PepsiCo fails to fully understand, assess and manage its dependencies and impact on nature, it faces serious financial and regulatory risks.

As shareholders, we wanted to signal that biodiversity loss isn't just an environmental issue, it's a material business risk that threatens our economies and societies.

Approach

When a shareholder proposal requesting biodiversity risk reporting came up at PepsiCo's May 2024 AGM, Railpen saw an opportunity for action.

We wrote to PepsiCo's investor relations team, highlighting our concern regarding this issue. We pushed for a more comprehensive assessment and disclosure that would help investors truly understand the risks.

Outcome and next steps

The proposal gained significant support, with 18.4% of shareholders (representing 178 million shares) voting in favour. Although it didn't pass, this level of support sent a clear message to management.

Ahead of casting our vote, we wrote to PepsiCo sharing our voting intentions. PepsiCo committed to sharing this with its Board of Directors, and would consider it when enhancing its corporate governance, compensation and sustainability practices, and reporting.

Railpen continues to monitor PepsiCo's progress on biodiversity risk assessment. This case demonstrates how targeted shareholder engagement can push companies to address critical sustainability issues, even when formal proposals don't initially succeed.

Priority issue: Cybersecurity

Companies across our portfolio face a substantial and growing cybersecurity risk.

We encourage these companies to explicitly disclose the governance and oversight structures they have in place to identify and manage these risks, and to report any breaches in a timely fashion, along with the measures they've taken in response.

We continue to engage with at-risk companies across our portfolio, both directly and as part of the Cybersecurity Coalition set up by Royal London Asset Management. Where we do not deem cybersecurity risks, or any breach response, to be sufficiently well managed, we will consider a vote against the Chair of the audit committee, or other committee we deem responsible. Where we deem disclosure on cybersecurity risk to be particularly poor, we may also vote against the Report and Accounts.

Case study 26: **Cybersecurity vote**

Issue

In 2024, the Cybersecurity Coalition flagged a US healthcare company in our portfolio as posing a high cybersecurity risk. The company has a large digital estate and processes sensitive information. We were therefore concerned to find a low level of public disclosure on its cyber system, including information gaps on due diligence during mergers and acquisitions and monitoring of third-parties.

As we were engaging with the company, one of its subsidiaries was hacked. The attack, which included the exfiltration of sensitive records, destabilised parts of the US healthcare system and incurred costs that ran into hundreds of millions of dollars.

Objective

We engaged with the company's leadership. Although its representatives were willing to answer questions, which helped us gain clarity on the governance structures in place, we had ongoing concerns about the effectiveness of the metrics reported to the Audit Committee.

Furthermore, investigation by company management showed that the company's legacy systems lacked some basic controls, and the hackers had operated undetected for days. We were conscious of the high likelihood of a second ransomware attack occurring.

Approach

We notified the company of our concerns about inadequate audit committee oversight. On this basis, we then informed the company of our intention to vote against its Audit Committee Chair at its upcoming AGM.

This was in strict alignment with our voting policy: "Where we do not deem cybersecurity risks, or any breach response, to be sufficiently well managed, we will consider a vote against the Chair of the audit committee, or other committee we deem responsible."

Outcome and next steps

The company defended its leadership, arguing that it would be too disruptive to change the team during a crisis.

8.6% of shareholders joined us in opposing the Chair's re-election – the highest opposition to re-election for any director as voted at the meeting.

Following communication with the company about our voting intentions, management agreed to a follow-up meeting where we discussed our unresolved questions and gained further reassurance on the company's reporting, oversight and preparation for the possibility of another attack.

Vote disclosure

We publicly disclose our voting records[22] for all company meetings since 1 January 2016 on the public Railpen website. Since October 2018, Japanese voting records have also been disclosed via this service. In 2024, we decided to make our vote disclosure more accessible and engaging for users, working with our service provider to create a page where information is better summarised and more easily searchable.

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 2025 Implementation Statement 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.

As the disclosure of votes along the investment chain is important to us, in January 2024 we took on the co-Chair role of the FCA-supported Vote Reporting Group (VRG), providing provide asset owners and managers with a consistent, comparable and standardised way of reporting all voting information. This was published in March 2025 and will now be merged with the existing PLSA template and overseen by the PLSA.

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 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 Equities 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 considerable 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 SO 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.

22 *Visit Railpen's Active ownership page on our website under 'Voting records' at the foot of the page.*

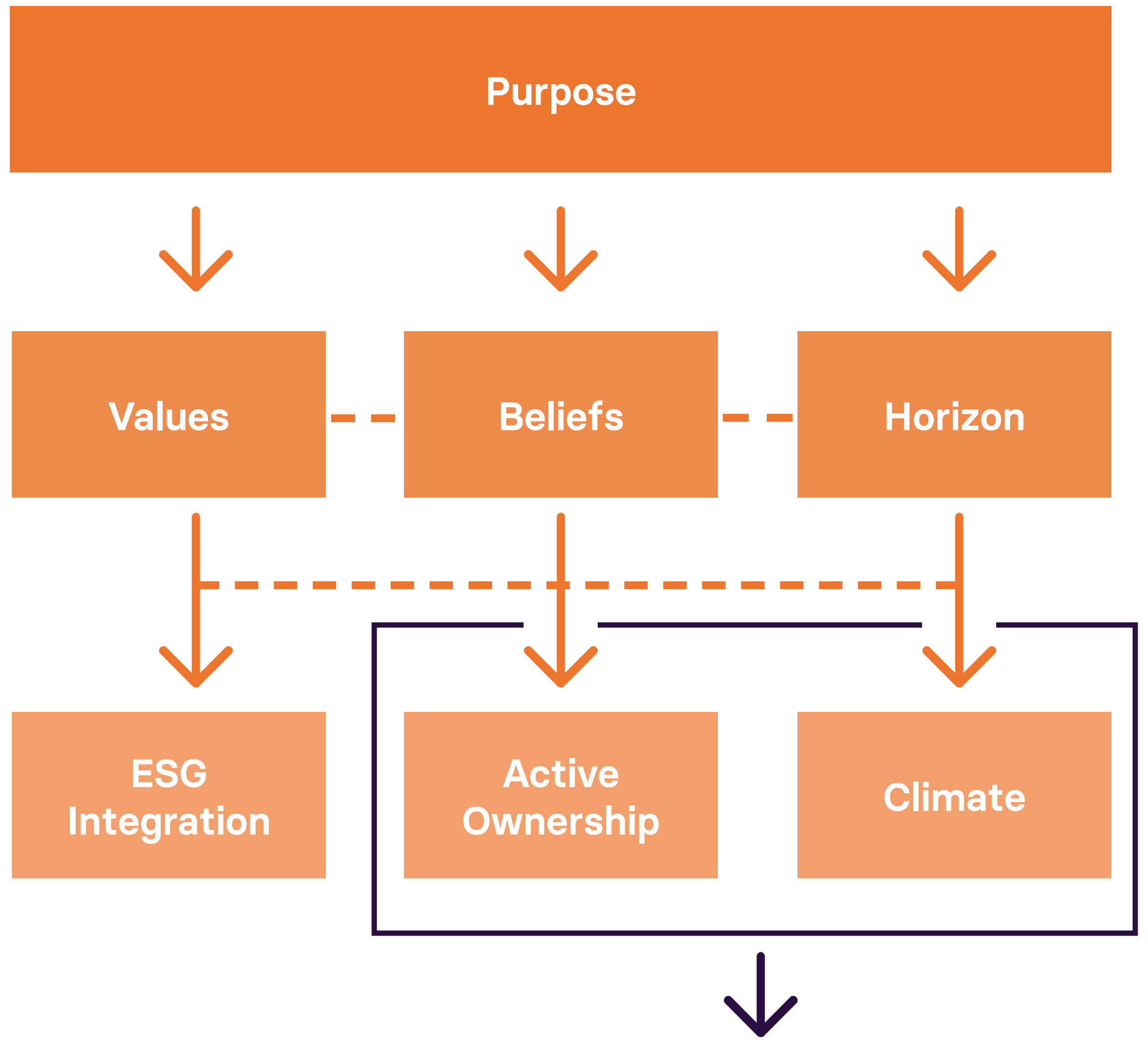
WORKING TO TACKLE MARKET-WIDE RISK

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.

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



- Market-wide stewardship
  - Direct policy intervention
  - Collaboration

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

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

Identifying material market-wide issues

The SO 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 following:

- The materiality of the issue to our portfolio
- Alignment with 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 2024, 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.

It also 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 the following:

- **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 2024, our public policy work focused on debates such as 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 2024 activity on thematic, market-wide priorities, including audit and shareholder rights.

Case study 27: **Our 2024 Acting on Audit paper and audit stewardship activities**

Issue
Railpen believes a high-quality audit is vital to ensuring shareholders are able to obtain a fair and true assessment of a company's financial health and stability. We have been thinking about audit issues at our portfolio companies, as well as the broader framework for audit quality, for some time.

As such, we've implemented clear voting lines at companies where audit quality might be compromised, as per our Global Voting Policy, including:

- voting against auditors where the tenure of the audit firm has extended beyond 15 years
- voting against the re-appointment of audit committee Chairs where the tenure of the audit firm extends beyond 30 years
- considering concerns on fee reductions, non-audit fees and inadequate disclosure.

Objective
Railpen sought to work with an external, independent research provider to review its audit stewardship work and understand where it could be more effective. Given how under-explored audit issues are by the investor stewardship community, we also thought there was merit in producing some public-facing guidance and recommendations for investors, audit firms, policymakers and company.

Approach
In 2024, Railpen collaborated with Governance Perspectives Ltd, an external consultancy, to produce an external-facing report: Acting on Audit: An Investor Stewardship Perspective, alongside the internal Railpen report that was focused purely on Railpen's existing and potential future stewardship activities on audit.

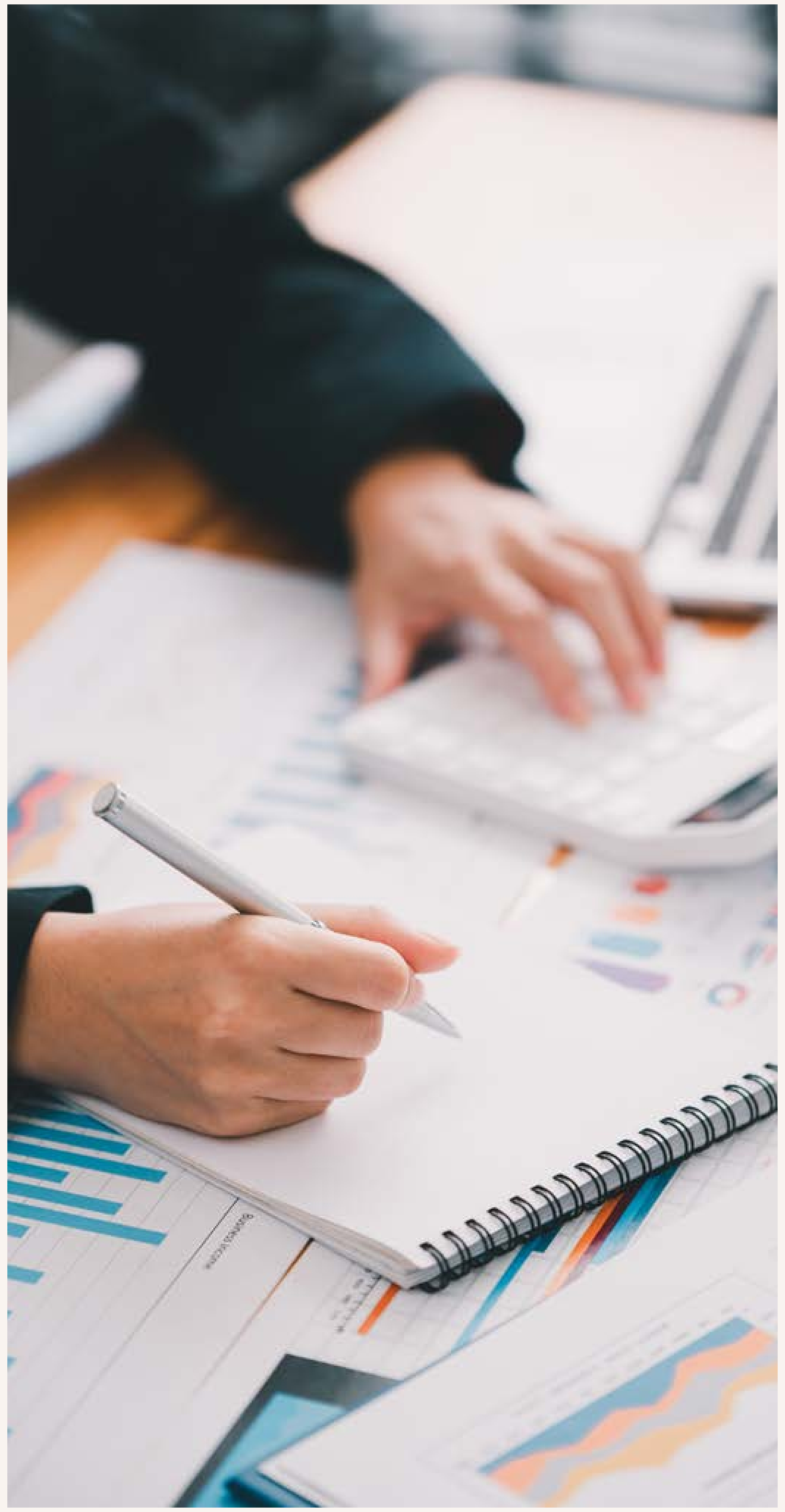
The external report would examine the main factors that affect audit quality and auditor accountability, including recent policy developments, and explore why these factors matter to investors and the beneficiaries they invest on behalf of. It would build on interviews with key market participants, as well as a review of the academic and policy research.

Outcome and next steps
The research found that often the audit and investor communities 'speak past' each other, and that while investors need to be more engaged on audit issues, audit firms and audit committees should also reach out to a company's shareholders as the true clients of the external auditor.

The report also made several specific recommendations to policymakers, investors and companies. This included:

- for regulators, greater transparency in inspection reports and stronger audit committee standards
- for audit firms, better reporting and more investor engagement
- for investors, voting policy changes and more focus on audit quality.

This report also includes suggestions for Railpen to improve its own stewardship work on audit going forward. Following the report's publication, Railpen expanded its voting lines on audit issues in the 2025 Global Voting Policy update, and also joined the Institute of Chartered Accounts of England and Wales (ICAEW) Steering Group on auditor reporting. We have been delighted to see further work by investor bodies in 2025 aimed at encouraging audit firms and investors to speak candidly to each other.



Case study 28: **Advocating against changes to the UK listing rules in 2024**

Issue

Railpen is a strong proponent of the one-share, one-vote structure. This is not just because it's right that the owners of capital should have a voice in proportion to their economic ownership, but because the evidence shows that any benefits to firm value from dual-class share structures decline only a few years after a company lists.

We discussed our 2023 work to lead the industry response to the Financial Conduct Authority (FCA's) proposals to roll back important shareholder rights – including equal voting rights – in last year's Stewardship Report. In 2024, the FCA presented its updated proposals for further consultation, which actually went backwards and removed even the minimal shareholder safeguards that had previously been proposed.

Objective

Railpen and many other investors (both asset owners and managers) were disappointed that the evidence base on the materiality of shareholder protections to corporate performance and healthy capital markets had not been taken into account.

Given the potentially serious consequences of these proposals for member outcomes, our extensive history of using public policy advocacy as a systemic stewardship tool, and our longstanding focus on shareholder rights – including through ICEV – we felt we were in a good position to try to bring the industry together again to advocate against these proposals.

Approach

Over the course of 2024, Railpen worked hard to ensure the investment industry presented a coherent and clear position. We renewed and refreshed the evidence base on the materiality of shareholder rights, as well as calculating and providing estimates of the additional cost for investors – and ultimately for beneficiaries – of these proposed changes. We were pleased that these calculations were also used by the PLSA in its response to the consultation.

We supported other asset owners, and industry bodies, with their own responses and were delighted to be an advocate for, and signatory to, the ICGN public letter[23] on this issue – which significantly raised awareness of the concerns of international investors regarding the changes.

Although our preference was for equal voting rights to be maintained, we also advocated for class-by-class vote disclosure, which would ensure that both investors and company Boards of dual-class companies would have greater transparency on the views of independent shareholders at AGMs. This followed on from our support for such disclosure as ICEV co-founder and Chair.

Outcome and next steps

The FCA received an unusually high number of responses from investors, particularly asset owners. And, while we were not successful overall, we did achieve some success on class-by-class vote disclosure, as well as ensuring a more balanced media debate.

As well as making changes to our 2025 Global Voting Policy update (published in December 2024) to address challenges posed by the changes to the UK listing rules (please see **case study 23**), we will continue to advocate for robust investor protections that support healthy capital markets and long-term value creation – and policy proposals that have the interests of savers at their heart.

23 *Global investors warn UK on overhaul of listing rules.*

Assessment of our effectiveness in tackling market-wide risk

We agree with the Financial Reporting Council (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 several Key Performance Indicators (KPIs) to 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 the following:

- An increased level of proactive media and speaking requests for our views on unequal voting rights, workforce and social issues, 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[24].
- Proactive requests from regulators, government officials and industry bodies to understand how Railpen undertakes and approaches issues including audit and net zero – this includes requests to join working groups such as ICAEW's working group on auditor reporting.
- 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.

Although we feel we have made progress on our system-wide stewardship, and recognise that system-wide change takes time, we aim for continuous improvement. In 2025, we will therefore be undertaking a multi-phase review of our thematic stewardship work. This will include:

- working with an external partner to re-examine and update the financial case for system-wide stewardship, and assessing our own approaches
- refining our 'materiality matrix' and refreshing our analysis of the major ESG themes
- agreeing our new thematic stewardship priorities, and launching these alongside stewardship strategies for each one.

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 2024, we became formally involved in some 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 and as a board member of the IIGCC.

We also support a member of our team to have sufficient time available to be 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 – by allocating them time to fulfil their duties.

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	Co-Chair Vote Reporting Group	Discuss and support production of industry framework for standardised 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

Continues on next page

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

Organisation	Acronym	Committee	Remit of committee
Institutional Investor Group on Climate Change	IIGCC	Board member Co-Chair, Investor Practices Advisory Group Co-Chair climate lobbying working group Co-Chair adaptation and resilience working group	Advise on a range of initiatives, including Net Zero Investment Framework that support investors' alignment with the Paris goals Promote action on corporate climate lobbying, including engagement with priority companies Contribute to development of Climate Resilience Investment Framework, and promote best practice on climate adaptation and resilience
Asset Owner Council (formerly RI Roundtable and Occupational Pension Stewardship Council)	AOC UK CGG	Steering Group (member) UK Corporate Governance Group (Chair) Alphabet Working Group (Chair)	Share best practice and collaboration on scheme stewardship issues Campaign and collaborate on UK corporate governance issues Information sharing with sustainability and pensions regulators

Organisation	Acronym	Committee	Remit of committee
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
Transition Pathway Initiative	TPI	Strategic Advisory Committee	Provide strategic oversight of the Initiative
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

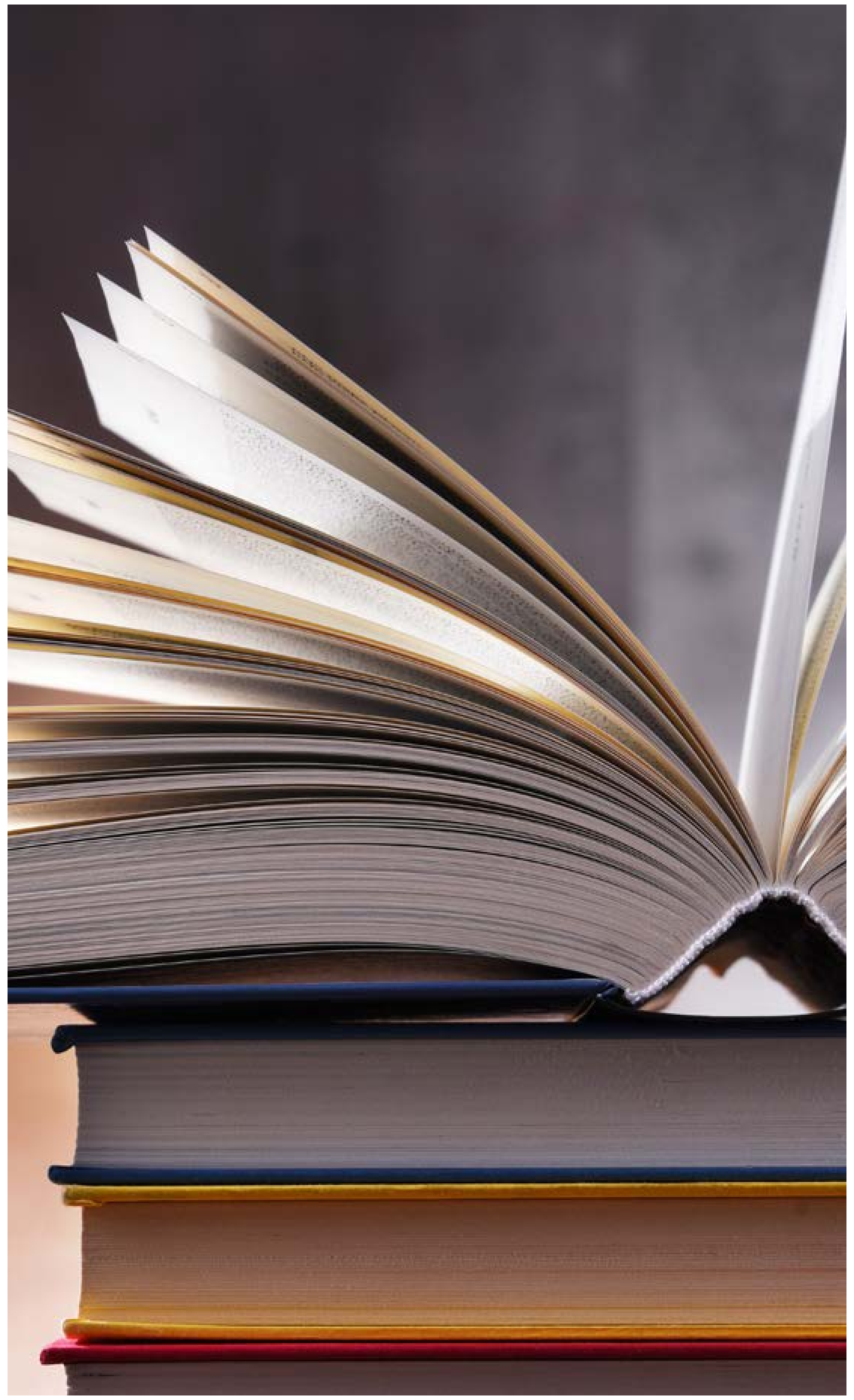
Other industry organisations – Railpen membership

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.

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

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 open 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, 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'.
- **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 (CO_2) and methane (CH_4). 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 2020 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 16)
2	Signatories' governance, resources and incentives support stewardship.	How our structures enable effective stewardship (page 21)
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	How our structures enable effective stewardship (page 21)
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 68)
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Foreword (page 3) Appendix 2 – Internal assurance (page 78) Our philosophy and approach (page 5) How our structures enable effective stewardship (page 21) Working to tackle market-wide risk (page 68)

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 16) Glossary (page 75)
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 30)
8	Signatories monitor and hold to account managers and/or service providers.	Systematic ESG integration (page 30) Thoughtful voting (page 57)
9	Signatories engage with issuers to maintain or enhance the value of assets.	Impactful engagement (page 42)
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	Impactful engagement (page 42) Working to tackle market-wide risk (page 68)
11	Signatories, where necessary, escalate stewardship activities to influence issuers.	Impactful engagement (page 42) Thoughtful voting (page 57)
12	Signatories actively exercise their rights and responsibilities.	Thoughtful voting (page 57)

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 Global Internal Audit Standards (GIAS).

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.

The approach for this Report

Previous years' 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 substantiating statements and claims around outcomes. The Railpen team felt that it would therefore continue to be useful to undertake assurance and ensure we could justify these statements.

Case studies were selected for assurance by the SO team according to the criteria below:

- 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 SO work or more broadly?

The SO team was also 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. In addition, Internal Audit also selected a sample of case studies to ensure those reviewed represented a fair and balanced assessment of the work undertaken by the SO team in 2024 and the statements made could be evidenced.

For each case study selected, Internal Audit

- 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 to identify if any information included within the report was contradictory to the work that had been performed.

The findings

Internal Audit was comfortable that the sampled case studies, as documented, represent a fair and balanced assessment of the work undertaken by Railpen in 2024 and statements made could be evidenced. 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 SO 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 and 2024 on Equivalency Proof of Concept for Stewardship. The working group has now been wound up, and we are pleased to be participating in the PRI's Future of Responsible Investing Asset Owners Group.

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 30) How our structures enable effective stewardship (page 21)
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	Stewardship in the interests of members (page 16) Impactful engagement (page 42) Thoughtful voting (page 57) How our structures enable effective stewardship (page 21)
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Impactful engagement (page 42) Thoughtful voting (page 57) Working to tackle market-wide risk (page 68)

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 68) Our philosophy and approach (page 5)
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.	Collective engagement (page 48) Working to tackle market-wide risk (page 68) 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)

Disclaimer

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