RPMI RAILPEN

Net Zero Plan

»

About Railpen

RPMI Railpen ("Railpen") acts as the investment manager for the Railways Pension Scheme, and is responsible for managing c. £32 billion of assets. Railpen is a wholly-owned subsidiary of the Railways Pension Trustee Company Limited, the trustee body ("the Trustee") for the Railways Pension Scheme.

The Trustee's mission is to pay the pensions of its 350,000 members securely, affordably and sustainably. Railpen is wholly dedicated to this purpose. Railpen is authorised and regulated by the Financial Conduct Authority (FCA).

More information about Railpen, including about our Sustainable Ownership activities is available at **rpmirailpen.co.uk**

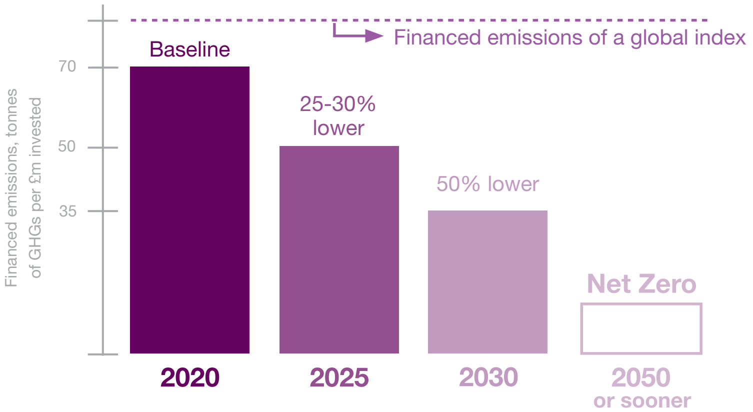
About this document

This document communicates Railpen's plan for delivering on our commitment to be net zero by 2050 or sooner. The plan covers both the investment portfolio and the emissions associated with our corporate footprint. Along with institutional peers, Railpen has co-signed the Paris Aligned Investment Initiative's Asset Owner Net Zero Commitment (which you can find in Appendix A).

While the tools and datasets investors need to manage climate risk are improving all the time, we do not have all the answers today. Drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework, we have included in our Net Zero Plan as many asset classes as we can, given (a) availability of methodology and data and (b) Railpen's investments in that asset class. Railpen is actively supporting the development of more methodologies, tools, and datasets to unlock further asset classes and expects to update our Net Zero Plan several times in the years to come.

For more information on Railpen's management of climate risks, please see our Climate-related Disclosures Report.

Railpen has committed to be net zero by 2050 or sooner



Focus on real world decarbonisation

Collaboration and continual improvement

IIGCC The Institutional Investors Group on Climate Change

Climate Action 100+

Transition Pathway Initiative

Alignment targets

2040: 100% of AUM in 'material' sectors either already net zero, aligned to net zero, or aligning to net zero

Engagement targets

Today: 70%* either aligned to net zero or under engagement

2030: 90% either aligned to net zero or under engagement

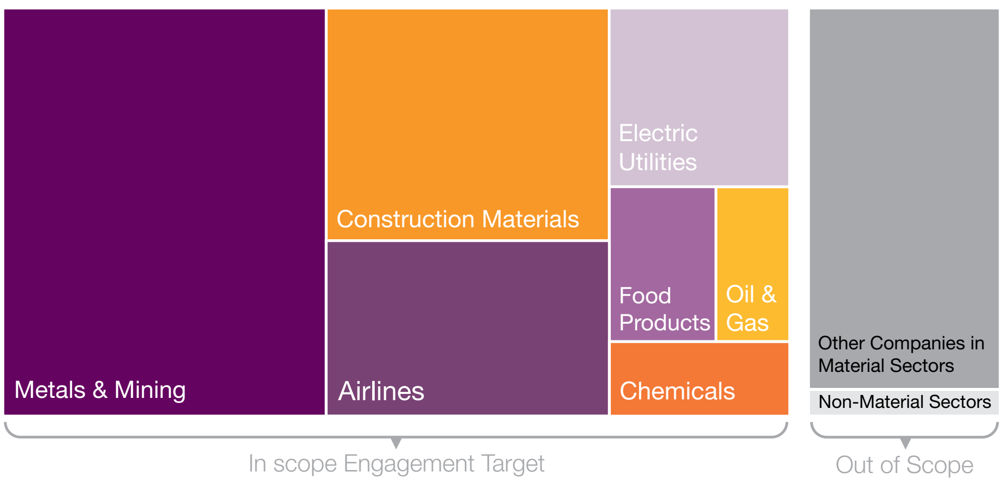
Climate solutions

Increased investment in the climate solutions required to meet net zero by 2050 or sooner

*Measured by "Financed Emissions" (see Glossary)

The treemap shows sectors covered by the engagement target.

The box sizes are in proportion to the sector's contributions to Railpen's financed emissions and the total shape represents our total financed emissions in the listed equities and corporate fixed income portfolios



65%

Of the investment portfolio is included in this Net Zero Plan

2/3 of Railpen's investment portfolio is within scope of this Net Zero Plan.

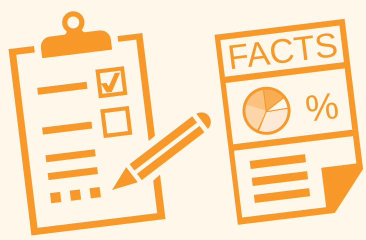
Additional asset classes will be brought within scope given improvements to methodology and data, and following robust due diligence.

~10% pre-commitment analysis

~15% Net zero methodologies under development

~10% Diverse asset classes, legacy assets, asset sales

Data-driven approach with proprietary tools for analysis and reporting



Contents

Executive summary

Railpen commits to managing its investment portfolio in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. This commitment is consistent with the goals of the Paris Agreement, the policy and legislated aims of the UK government, and the Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C. This Net Zero Plan is implemented with the expectation that governments and policymakers will deliver on commitments to achieve a 1.5°C temperature goal.

We have drawn on the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) in order to produce our Net Zero Plan. We believe this plan is a credible, action-oriented strategy for achieving the required rate of decarbonisation, not just by transferring GHGs from Railpen's balance sheet to someone else's, but by achieving changes in the real economy.

At the present time, the Net Zero Plan covers Railpen's investments in listed equities, corporate fixed income, and sovereign bonds, approximately 65% of the investment portfolio (excluding cash) as of December 2020 (see Figure 2.1). We will update and expand our Net Zero Plan to take account of ongoing improvements in methodologies and data.

Figure 2.1

Asset classes included in this Net Zero Plan

The current Net Zero Plan is based on four pillars as defined in the NZIF and shown in Figure 2.2. Further detail under each pillar is provided later in this document.

Figure 2.2
The pillars of our Net Zero Plan

Governance and strategy	Targets and objectives	Asset Class Alignment	Policy advocacy and market engagement
Commitment, beliefs, responsibility & ownership, reporting	Fund-level GHG reduction targets, climate solution targets	Portfolio-level alignment targets, engagement targets, selective disinvestment	Strategic policy and market-level engagement, direct and collaborative support for the Paris goals

In broad terms, our use of the NZIF has led us to set four types of "reference target" (see Glossary) as part of our Net Zero Plan. The targets are consistent with the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero timeframe. The reference targets apply to Railpen's investments in listed equities and corporate fixed income. The targets are summarised in Figure 2.3 and explained in more detail later in the Net Zero Plan.

Figure 2.3
Overview of Railpen's reference targets

Fund level	**GHG reduction targets** 2030: 50% reduction in financed emissions 2025: 25-30% reduction in financed emissions	**Climate solutions** Increased investment in the climate solutions required to meet net zero by 2050 or sooner
Portfolio-level	**Engagement targets** Today: 70%* either aligned to net zero or under engagement 2030: 90% either aligned to net zero or under engagement	**Alignment targets** 2040: 100% of AUM in 'material' sectors either already net zero, aligned to net zero, or aligning to net zero

**These proportions are measured by the % of financed emissions from companies in material sectors. This ensures we focus engagement on the companies with the greatest climate impact.*

Please refer to the Glossary for definitions of "fund-level" and "portfolio-level".

Like many investors, we are dependent on the quality and completeness of climate data and of net zero methodologies for different asset classes. We are proactively contributing to the improvement in methodologies including through participation in the PAII, the Transition Pathway Initiative, CDP, support for the Taskforce on Climate-related Financial Disclosures (TCFD), and broader market engagement. In this regard, our priorities are those data and methodologies that will unlock our ability to set a climate solutions target and shorter term alignment targets.

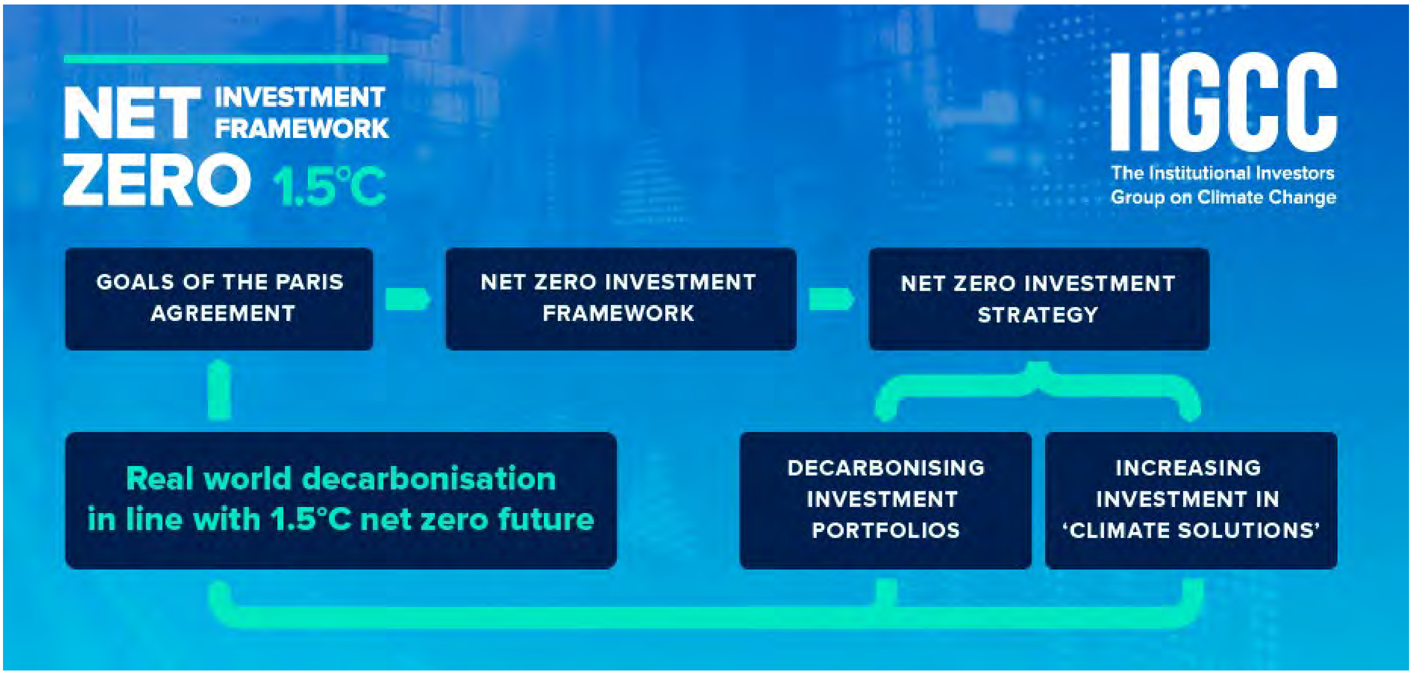
In line with the NZIF, we will, over time, tighten our existing exclusion rule on companies involved in thermal coal and tar sands. At present, we automatically exclude companies deriving more than 30% of annual revenue from thermal coal or tar sands (or both). This leads to 175 companies being excluded from our investment portfolio for excessive climate risk. Our annual reviews of the exclusion rule will consider tapering the 30% threshold. However, so long as it remains the case that certain regions require access to these commodities for the preservation of basic living standards, we require some flexibility in our exclusion rule.

Following the NZIF and the International Energy Agency's (IEA) "Net Zero by 2050 pathway", we do not support the allocation of capital to new thermal coal projects (new mines, mine extensions, or new coal-fired power projects) or new exploitation of tar sands.

Railpen invests a significant proportion of its assets in UK Gilts. We have applied the NZIF's Sovereign Bonds methodology to our Gilts allocation as appropriate. The UK has passed laws requiring net zero GHG emissions by 2050, and is rated as second only to Sweden in the Climate Change Performance Index[1]. Our policy engagement in the UK will be focused on continuing to support policy makers to set a world-leading climate policy agenda.

Additionally, we commit to be operationally net zero (i.e. covering our organisational scope 1 and scope 2 GHG emissions) by 2050 or sooner.

Consistently with the NZIF, we will review the propriety of our targets on a regular basis in order to maximise our contribution to the real economy, while meeting our core fiduciary objectives.



[1] *Source: Germanwatch*

Governance and strategy

- Railpen's purpose is to deliver our Trustee's mission to pay members' pensions securely, affordably and sustainably. Our long investment horizon exposes our clients' assets to societal and systemic risks, such as climate change. We have a dual responsibility to make our fund resilient to systemic threats, and to use our scale and influence to effect positive change in the world. Most economic and climate scenario analyses suggest that delivering the goals of the Paris Climate Accord would lead to lower economic damages and higher productivity than would unabated climate change. We believe support for a Paris-aligned climate outcome is in the interests of our members.

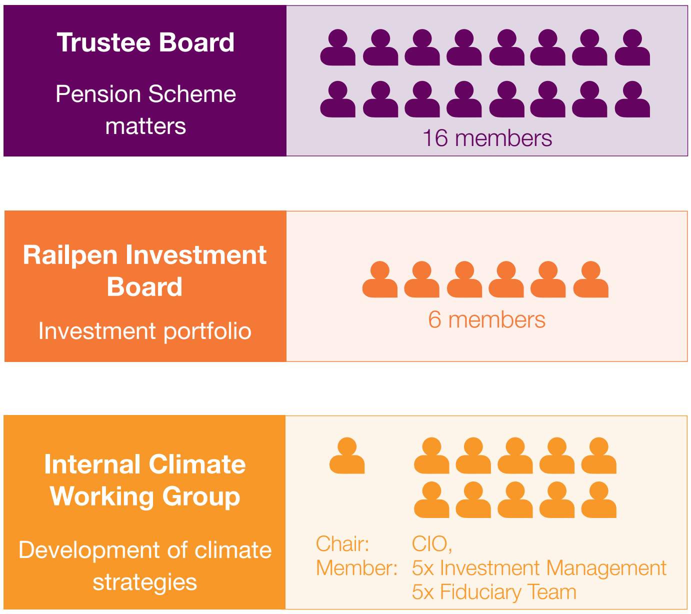
- Railpen has committed to the goal of achieving net zero portfolio emissions by 2050, or sooner. Railpen signed the Paris Aligned Investment Initiative's (PAII) Asset Owner Net Zero Commitment on 9 August 2021. (You can find a copy of this commitment in Appendix A).

- Our Net Zero Plan has been developed by the internal Climate Working Group, which was formed in September 2020. As the Net Zero Plan primarily affects the investment portfolio, it was put to the Railpen Investment Board for approval in June 2021. The Trustee Board and the Railpen Investment Board will receive annual progress reports. Further information will be made available to scheme members and the wider public, drawing on the reporting expectations in the PAII's Net Zero Investment Framework (NZIF).

- We have based our Net Zero Plan on the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework[2] (NZIF). Railpen is represented on the Steering Committee of the PAII. The NZIF is designed to be effected on an implement or explain basis. Not every aspect of the NZIF applies to the way Railpen manages client assets, and our use of the framework reflects this. We have additionally used the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry to guide our approach to measuring financed emissions.

Figure 3.1

Illustrative climate responsibilities



[2] *https://www.iigcc.org/our-work/paris-aligned-investment-initiative/*

- Railpen shares and delivers on our Trustee's Investment Beliefs. The beliefs include the interrelation of ESG factors, including climate change, with long term investment outcomes (Box 3.1).

Box 3.1

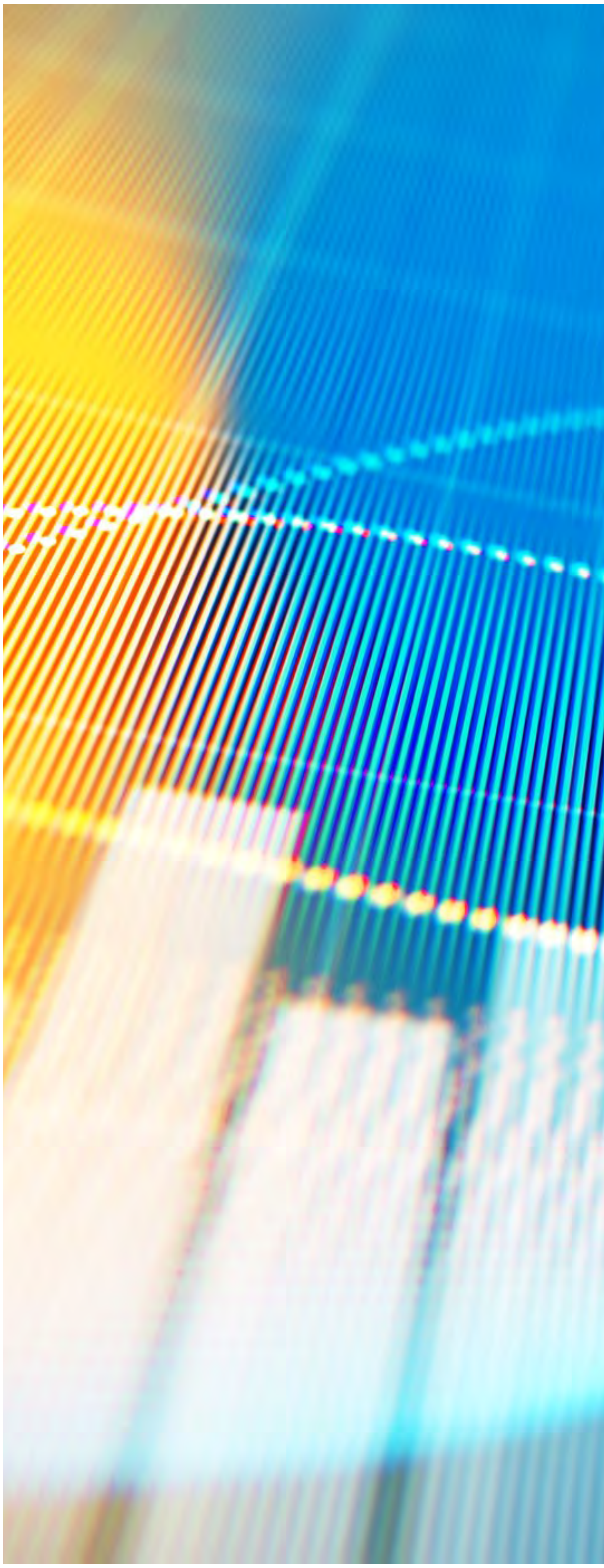
Excerpt from Trustee Investment Beliefs

> **Environmental, social and governance factors materially impact long-term investment returns and must be taken into account.**
>
> Integration of environmental, social and governance factors improves investment decisions in the long term.
>
> Active ownership empowers investors to influence corporate behaviour and benefit from sustainable business practices.
>
> Long-term themes expose our portfolios to substantial risks and opportunities which cannot be fully quantified but should be managed.

- Railpen commissioned Ortec Finance to conduct financial impact analysis of this Net Zero Plan. The conclusion of the impact analysis is summarised in Box 3.2 on page 10. We will continue to monitor the Net Zero Plan to make sure our investment strategy continues to support our fiduciary objectives. We will conduct further financial impact analysis prior to adding further asset classes to the Net Zero Plan.

- Climate scenario analysis was first undertaken on Railpen's portfolio in 2019. The high-level conclusions of this exercise are provided in Railpen's Climate-Related Disclosures[3]. We are currently reviewing options for further integration of climate scenario analysis in investment decision-making.

- The first iteration of our Net Zero Plan covers our investments in listed equities, corporate fixed income, and sovereign bonds. The majority of the capital invested in these asset classes is managed by internal Railpen investment managers, though there are two external fund managers with existing mandates. Each of the external asset managers has joined the Net Zero Asset Managers Initiative. As more asset classes are added to the Net Zero Plan, or new mandates awarded, we will take the opportunity to factor net zero into mandates, side letters, or other documentation.



[3] *https://www.rpmirailpen.co.uk/*

Box 3.2

Financial impact analysis conclusion

Ortec Finance has assisted Railpen with a high level financial impact analysis of its Net Zero commitment on 65% of its investment portfolio (mainly public equities and credit and covering Scope 1 and 2 emissions). Ortec Finance has used qualitative inputs and quantitative climate change scenario analysis including an orderly and a disorderly Paris transition, and a failed transition. To frame alternative outcomes, these scenarios were further supplemented with a global financial crisis type scenario combined with unsuccessful engagements, plus a slower than expected decarbonisation in high emissions sectors and forced divestments in 2024 and 2029 to meet Net Zero targets. **The potential impact, resulting from these combined scenarios range from -0.45% to -0.55% of the portfolio (assuming no transition management/futures hedging in place), which Railpen views as low. The impact to expected returns from divestment and a switch to a representative low carbon benchmark is minimal for most scenarios. A Paris disorderly scenario with a switch in mid-2025 shows a very modest increase in returns from avoided losses on high-emitters.**

The Ortec Finance analysis includes a very high level review of green assets, their current and potential valuations and scenario analysis intended to capture the portfolio impact of any potential weakness in green asset valuations. The analysis broadly classifies these into light green and dark green, based on climate-related activities as part of the company business. The analysis then compares price ratios for these companies and stresses them to their mean, median and long term historical averages. In these scenarios, light green stocks show minimal effect of normalising price action while dark green stocks show higher potential for portfolio impact especially when increased as a percentage of the portfolio. Given the modest exposure to dark green stocks, the normalisation of P/E ratios of dark green stocks via price action to the median level of the remaining holdings, results in minimal to potentially no losses. If dark green stocks were to increase to 30% of the portfolio, the range of equivalent total portfolio impacts can be between -6% to -13% depending on scenario and multiples. **The analysis highlights the extreme sensitivity of results to the exact definition and classification of green assets and revenues, and highlights the considerable value and need for further work to explore this further.**

Coal and tar sands holdings are a very small portion of Railpen's portfolio holdings. Ortec Finance in its analysis indicates that reducing revenue thresholds for potential divestment of tar-sands and coal to near-zero is intuitively appealing if the GHG goal is at risk. However, if the threshold is too low, then highly diversified (and potentially rapidly transitioning) companies could come into scope. **Therefore, reducing the threshold lower but potentially to a non-zero level, could allow the use of this level as part of the engagement agenda especially with diversified companies. The Ortec Finance analysis also covered the impact of tilting the current portfolio away from higher emitting sectors. Overall this is positive for risk factors in all scenarios, driven by a reduction in diversification (especially in the Paris disorderly scenarios) and a modest increase in portfolio volatility, offset by lower exposure to transition-related shocks.**

Allowing for climate change impacts in general, Ortec Finance see lower expected portfolio returns in all scenarios compared to a climate-uninformed baseline outlook. This is primarily a consequence of significant locked-in physical damage (likely currently unpriced), volatility and uncertainty in the distribution of future returns and changes in strategic asset allocation and funding considerations in light of climate impacts and its effect on overall risk appetite. **Ortec Finance assesses Railpen's Net Zero commitments and targets are having fairly minimal financial impact on the overall currently assessed portfolio. Railpen's Net Zero plan focuses on decarbonisation through engagement and stewardship. Successful corporate engagements, both individual and collective, are positive for climate and society with resulting impacts flowing through to the economy.**

Targets and objectives

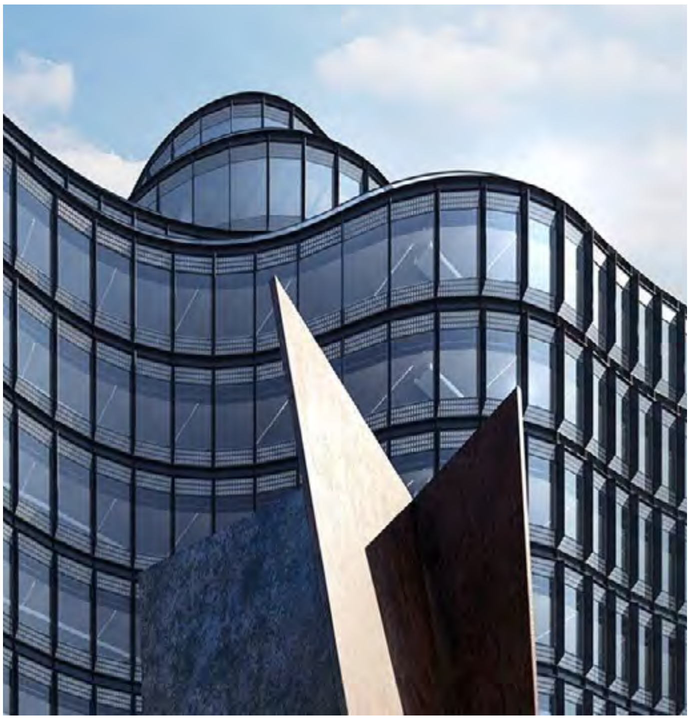
- Railpen is committed to managing its investment portfolio in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. Following the NZIF, we aim to meet deliver on our commitment primarily through:

  1. Decarbonisation of the investment portfolio – to be achieved in the first instance by corporate engagement to align investee companies with the Paris goals

  2. Investment in climate solutions – goods and services involved either in mitigating the harmful effects of climate change or in providing climate resilience

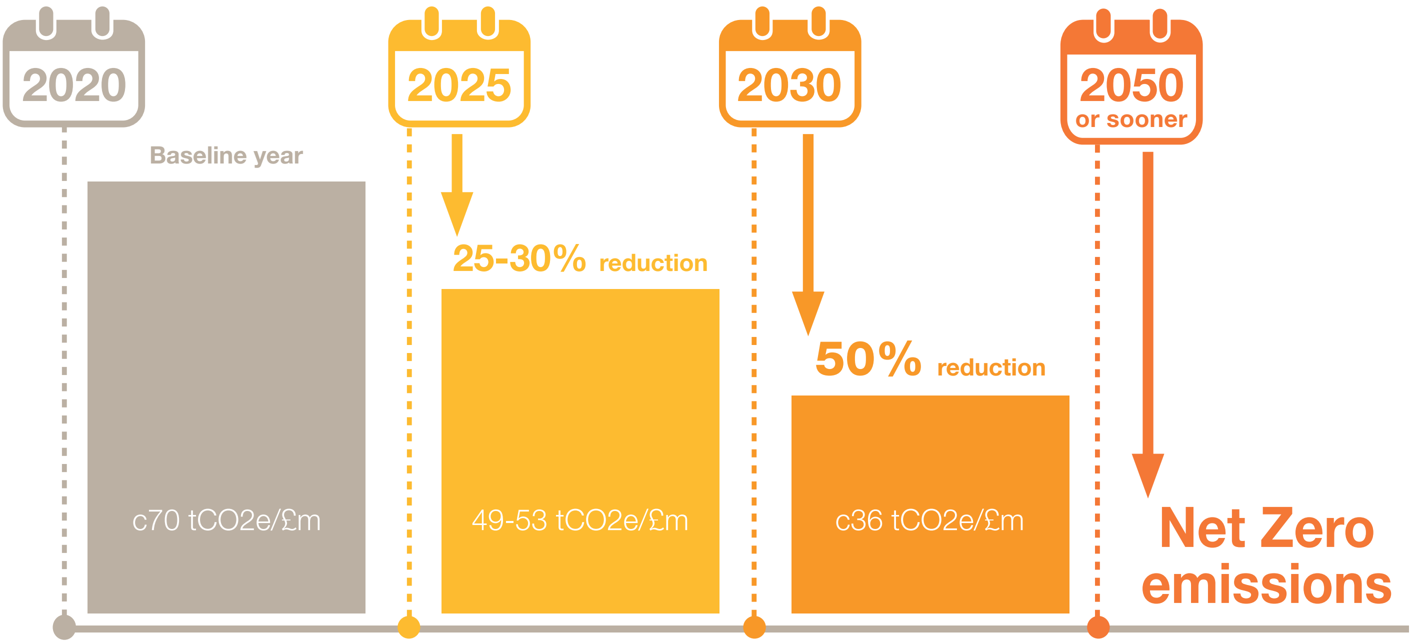
- We detail the fund-level reference targets below. Our targets and objectives are constructed to contribute to reducing overall real-world emissions, and not just a lower footprint for Railpen's investment portfolio.

- We will review our targets on a regular basis as described in Section 7 below.



Our commitment to reduce real-world emissions is demonstrated in our recent office move to a net-zero development.

GHG reduction targets



To derive our fund-level GHG reduction targets we have used science-based sectoral pathway consistent with a global decarbonisation trajectory towards net zero by 2050. This means we have used a model (we used the One Earth Climate Model (OECM) from the Institute for Sustainable Futures (ISF)) to identify the emissions reduction pathways key GHG-emitting sectors need to take in order for the realistic achievement of global net zero emissions by 2050 (see Figures 4.1 and 4.2). We applied these pathways to our fund considering the extent to which we are invested in these key sectors, and derived an overall emissions reduction target.

Figure 4.1
Global Scope 1 emission pathways in CO_2 equivalents by sector

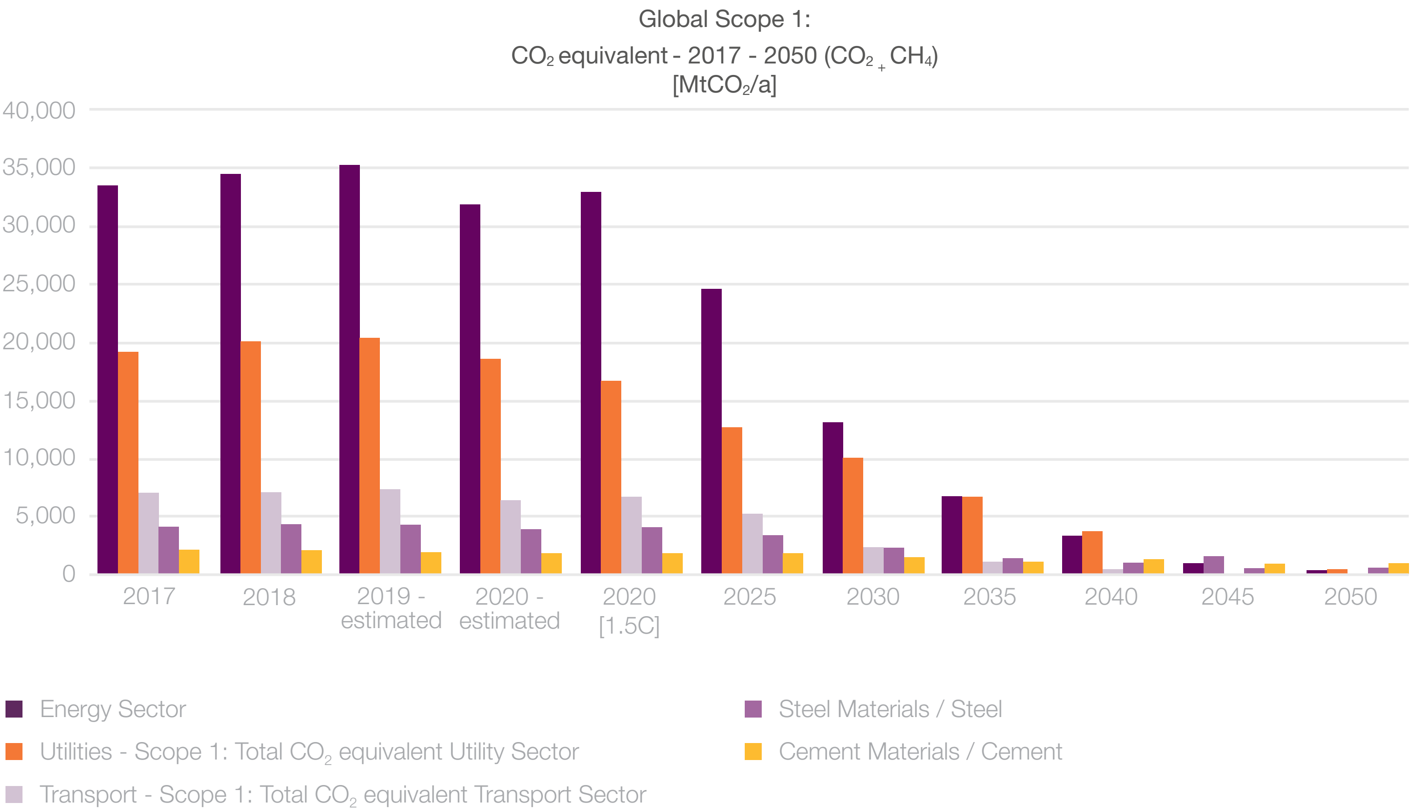
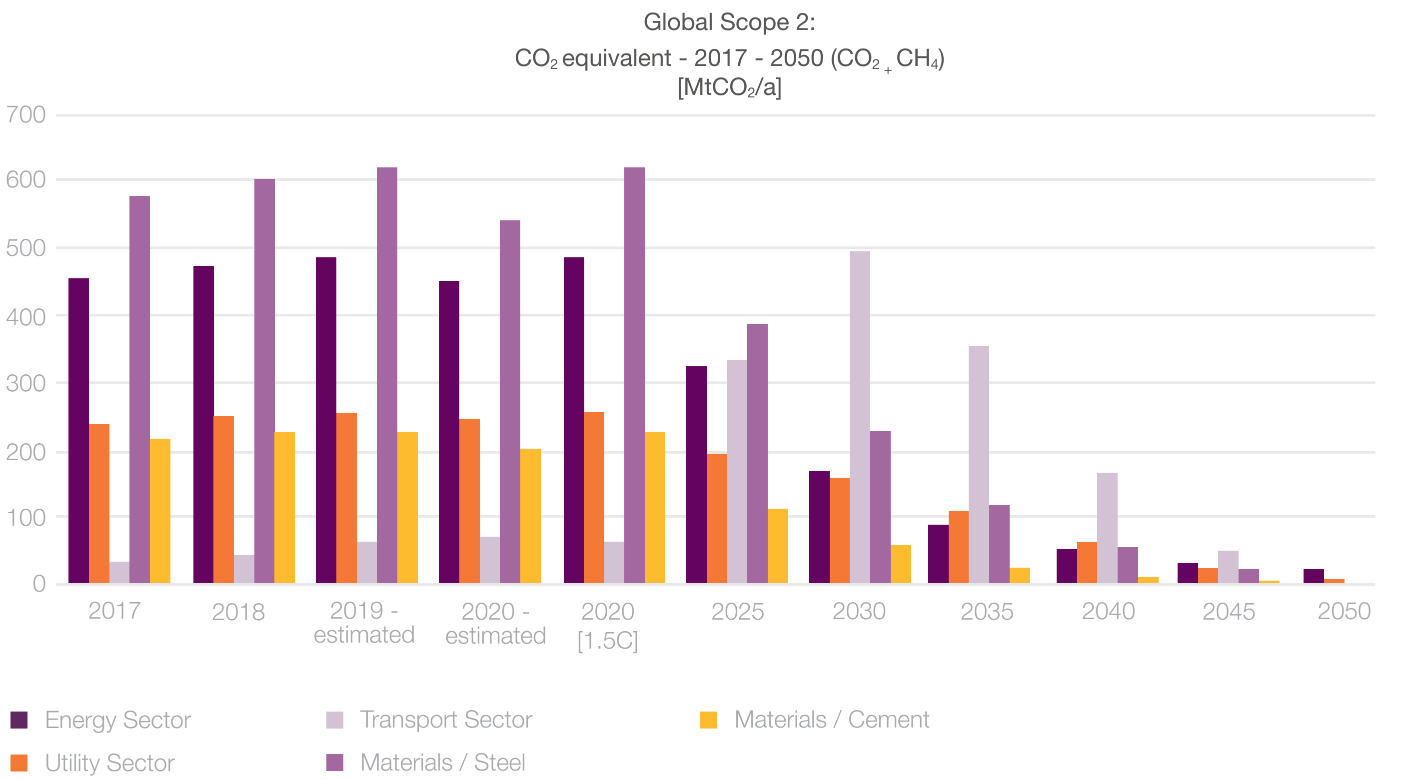


Figure 4.2
Global Scope 2 emissions pathways in CO_2 equivalents by sector



At the present time, these fund-level targets apply to our investments in listed equities and corporate fixed income). Our targets relate to the reduction of Scope 1 and Scope 2 GHGs in the investment portfolio[4].

Our baseline level of financed emissions is approximately 70 tonnes of carbon dioxide equivalent per million £ invested ("tCO2e/£m")[5]. If we meet our 2030 GHG reduction target, our footprint will be approximately 36 tCO2e/£m. In reporting progress against targets, we will take account of undue influences on the numerator (for example were our financed emissions to appear lower due to the influence of COVID-19 lockdown measures on investee companies' annual GHG emissions) and the denominator (for example Railpen's AUM being affected by swings in inflation, exchange rates, interest rates, and so on).

Investment in climate solutions

Companies producing climate solutions – goods and services involved either in mitigating the harmful effects of climate change or in providing climate resilience – will likely see increasing in-flows of investor capital in the years and decades ahead. Railpen has already taken advantage of this by investing the majority of its infrastructure portfolio in UK renewable energy and smart meters. We expect to continue to increase our allocation to climate solutions where this is promotive of both our climate and fiduciary aims. We have publicly and directly encouraged policy-makers to go further in their promotion of a supportive backdrop for an expanded pipeline of investible opportunities in climate solutions.

Figure 4.3:

Sector split of infrastructure investments in Railpen's Long Term Income Fund (LTIF)

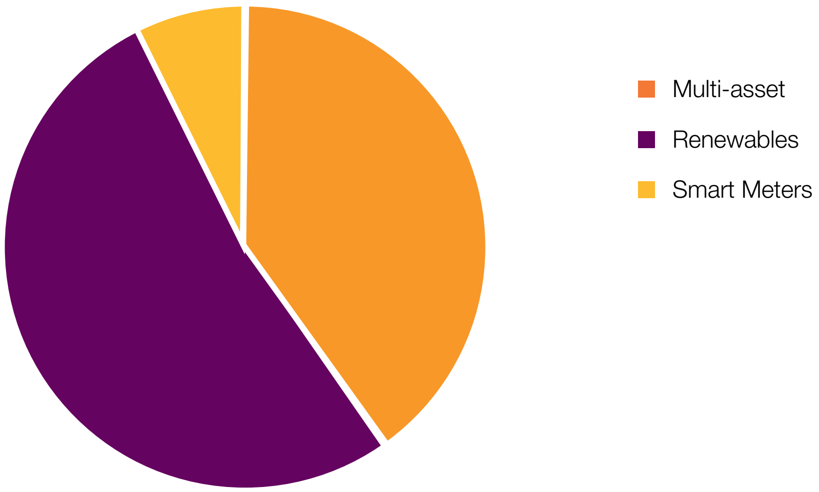
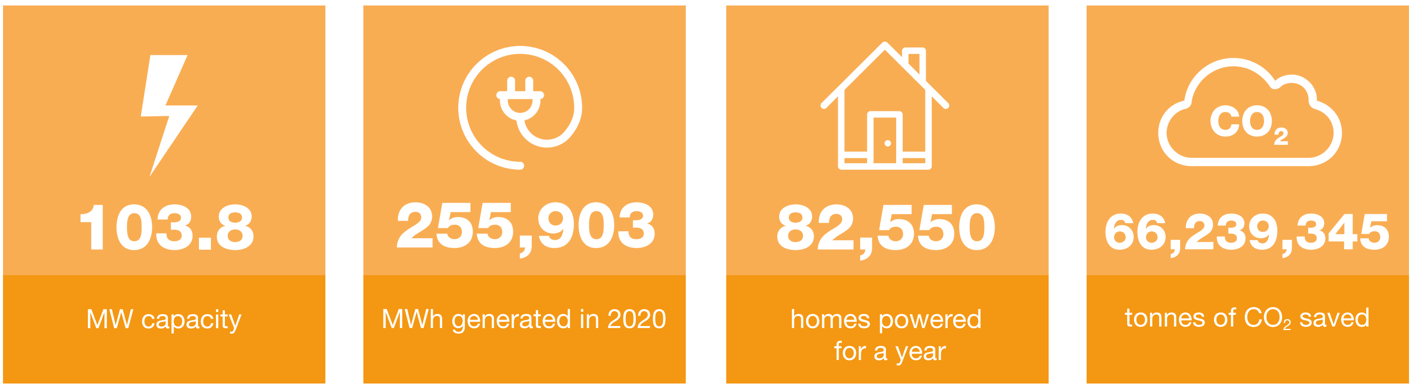


Figure 4.4

Energy metrics from Railpen's LTIF renewables investments



[4] See Glossary. Given sufficient methodology and data availability, we will include scope 3 GHG emissions in a future iteration of our Net Zero Plan. It should be noted however that our Asset Class Alignment (Section 5) pillar includes scope 3 emissions within the context of our Engagement Targets and Alignment Targets.

[5] The Partnership for Carbon Accounting Financials' (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry has been used to produce our baseline and target data.

Our Net Zero Plan currently covers publicly-traded asset classes, largely because consensus agreements on net zero methodologies for unlisted asset classes are not yet available. We are working with the PAII to establish methodologies for unlisted asset classes. While publicly traded asset classes allow investors to be part-owners of companies that produce climate solutions, we believe that direct investments in unlisted markets, such as infrastructure and real estate, have greater impact in the real economy.

Climate solutions data quality and availability have improved in recent years, but we require more complete and reliable information in order to define a 2020 baseline for climate solutions in listed assets (i.e. to know how much of Railpen's listed portfolios is invested in companies producing climate solutions). At present, about 30% of our listed equities investments have some exposure to climate solutions when measured by annual revenue generated in the past 12 months. However, for some companies this might be a minority of their overall business. On the other hand, many companies are investing R&D and Capex in climate solutions but this will only appear in future revenue streams. We also need to further understand the trade-offs between decarbonisation targets and climate solutions targets. We are working with our industry peers and ESG data vendors to close the gaps and establish a baseline.

The NZIF operates on an 'implement or explain basis' and, owing to the data and methodological challenges described above, we are required to explain rather than implement this particular part of the framework at this time. We will be working closely with the PAII's Climate Solutions Working Group to review this position.

Organisational emissions target

Following the NZIF, we additionally commit to managing our organisational scope 1 and scope 2 emissions in line with a target of achieving net zero by 2050 or sooner. In the short term, we might be required to use carbon offsets to meet this target. We intend to limit our use of offsets to instances in which there is no feasible alternative. Additionally, we intend to draw on best practice guidance and employ high-quality offsets where this is required. We follow the existing guidance[6] on "Emissions accounting and Offsetting" in the NZIF.

[6] For example, The Oxford Principles for Net Zero Aligned Carbon Offsetting, https://www.smithschool.ox.ac.uk/publications/reports/Oxford-Offsetting-Principles-2020.pdf

Asset Class Alignment

We aim to deliver our targets and objectives by 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. Given current availability of methodologies and data, we present asset class alignment plans for listed equities and corporate fixed income, and sovereign bonds. Additional asset classes will be included in our Asset Class Alignment plans in due course.

5.1 Listed equities and corporate fixed income

Scope
The scope of this Asset Class Alignment plan includes Railpen's investments in listed equity and publicly traded corporate fixed income, totalling 57% of the Railpen portfolio (ex-cash) as of December 2020. We classify these assets into four 'portfolios': Quantitative Equities, Fundamental Equities, Index-tracking Equities, and Corporate Fixed Income.

Engagement targets
To achieve decarbonisation in line with net zero by 2050, we set the following engagement targets within each of the four named portfolios:

- Today: 70% of the portfolio* either aligned to net zero or under engagement
- 2030: 90% of the portfolio* either aligned to net zero or under engagement

**These proportions are measured by the % of financed emissions from companies in 'material' sectors (see Glossary). This ensures we focus engagement on the companies with the greatest climate impact.*

Table 5.1

	Quantitative Equities	Fundamental Equities	Index - Tracking Equities	Corporate Fixed Income	Railpen Portfolio*
Management	Internal	Internal	External	External	Internal/ External
Number of companies in scope in engagement target	32	2	31	9	44
Number of companies in engagement targets excl CA100+ engagements	23	1	21	4	28

The aims of the engagements – to align underlying businesses with a net zero trajectory – will be achieved through engagement both directly and collaboratively. Climate Action 100+[7] ("CA100+") will be the primary collaborative engagement vehicle. Engagement plans will be drawn up and reviewed annually, and will take account of portfolio turnover. From a systems perspective, we believe it is more important to engage companies who influence the demand for energy, rather than companies involved in the supply of energy.

[7] *https://www.climateaction100.org/*

Table 5.1 shows the number of companies within the scope of the engagement targets. There are 28 companies that are in scope for our engagement target, but are not covered by CA100+. These companies will require direct engagement either by Railpen or by external investment managers. Twenty of these companies are in portfolios managed by Railpen. Each of the external asset managers concerned has joined the Net Zero Asset Managers Initiative.

Figure 5.1

Sector concentrations of companies within scope of engagement targets

Climate change is already a criterion in the way Railpen casts shareholder votes on behalf of its clients. At present, we draw on data from the Transition Pathway Initiative and Carbon Tracker to support voting decisions. In 2021 we have also voted to support Say on Climate resolutions that meet our standards and climate shareholder resolutions where we believe companies need to go further. We will increasingly use the escalation force brought about by an "oppose" vote to back up our net zero engagements. Our Voting Policy is reviewed annually and at the next review we will consider inclusion of additional climate voting guidelines recommended in the NZIF.

How do we know when a company is aligned to net zero?

The cornerstone of our Net Zero Plan is engaging businesses in 'material' sectors to align to net zero by 2050 or sooner. The NZIF provides a set of objective criteria for classifying companies into five alignment categories. There are more hurdles for "Material – Higher Impact" companies to be considered 'aligned'. These criteria form our minimum engagement objectives and milestones.

The Transition Pathway Initiative and the CA100+ Net Zero Company Benchmark are excellent resources for assessing company alignment with net zero. However, there are no tools or datasets able to provide 100% coverage of our investment portfolio at the present time. Improvements to data quality and coverage is part of our Policy Advocacy & Market Engagement pillar (Section 6).

Alignment targets

Per the NZIF, Railpen will commit to "alignment targets". Setting alignment targets ensures that our Net Zero Plan is not predicated on engagements with indefinite timescales.

2040: Of our investments in 'material' sectors, 100% will be either Type 1 (already at net zero GHG emissions), Type 2 (aligned to net zero) or Type 3 (aligning to net zero).

In addition to a 2040 target, the NZIF calls for investors to set 2025 Alignment Targets. As mentioned above, however, we do not possess sufficient alignment data to determine Railpen's alignment baseline. We are proactively contributing to the improvement in methodologies including through participation in the PAII, the Transition Pathway Initiative, CDP, support for the Taskforce on Climate-related Financial Disclosures (TCFD), and broader market engagement. In this regard, our priorities are those data and methodologies that will unlock our ability to set a climate solutions target and shorter term alignment targets.

Selective disinvestment

Successful engagement leads to superior societal outcomes than disinvestment, which can be a blunt instrument. However, the window for achieving a 1.5°C climate outcome is time-limited and so therefore will our engagements be. We expect annual progress against alignment milestones. In line with the NZIF, we will consider selective disinvestment from companies either where the magnitude of climate risk negatively impacts our view

[8] *https://www.rpmirailpen.co.uk/wp-content/uploads/2018/05/RPMI-Railpen-2021-22-Voting-Policy.pdf*

of expected risk-adjusted return, or as the final escalation in an unsuccessful net zero engagement. Any potential disinvestments will be weighed in the context of the broader mandate objectives. For index-tracking equities, we will keep the possibility of investing in customised index products under review.

In line with the NZIF, we will over time tighten our existing exclusion rule on companies involved in thermal coal and tar sands. At present, we automatically exclude companies deriving more than 30% of annual revenue from thermal coal or tar sands (or both). This leads to 175 companies being excluded from our investment portfolio for excessive climate risk. Our annual reviews of the exclusion rule will consider tapering the 30% threshold. However, so long as it remains the case that certain regions require access to these commodities for the preservation of basic living standards, we require some flexibility in our exclusion rule. Following the NZIF and the International Energy Agency's (IEA) net zero pathway[9], we do not support the allocation of capital to new thermal coal projects (new mines, mine extensions, or new coal-fired power projects) or new exploitation of tar sands.

5.2 Sovereign bonds

Scope
The scope of this Asset Class Alignment plan includes Railpen's investments in UK government bonds, totalling 8% of the Railpen portfolio (ex-cash) as of December 2020.

Alignment targets
The UK has passed laws requiring net zero GHG emissions by 2050, and is rated as second only to Sweden in the Climate Change Performance Index[10]. Our policy engagement in the UK will be focused on continuing to support policy makers to set a world-leading climate policy agenda.

Engagement targets
We have identified UK policy-makers as a key stakeholder to target within our Policy Advocacy & Market Engagement pillar (see Section 6). Aside from advocating a position of continued climate leadership, we will target COP 26 advocacy, Department for Business, Energy and Industrial Strategy (BEIS) consultations, and improved climate data in private assets. Our network of membership initiatives will support these aims, including: the Investor Agenda, IIGCC, FRC Investor Advisory Group, GFANZ, BVCA RI Advisory Group, UKSIF, PRI Global Policy Reference Group, PLSA Stewardship Advisory Group, PCRIG[11].

[9] IEA: "Net Zero by 2050 – a Roadmap for the Global Energy Sector"

[10] Source: Germanwatch

[11] Abbreviations are defined in Appendix D

Policy advocacy and market engagement

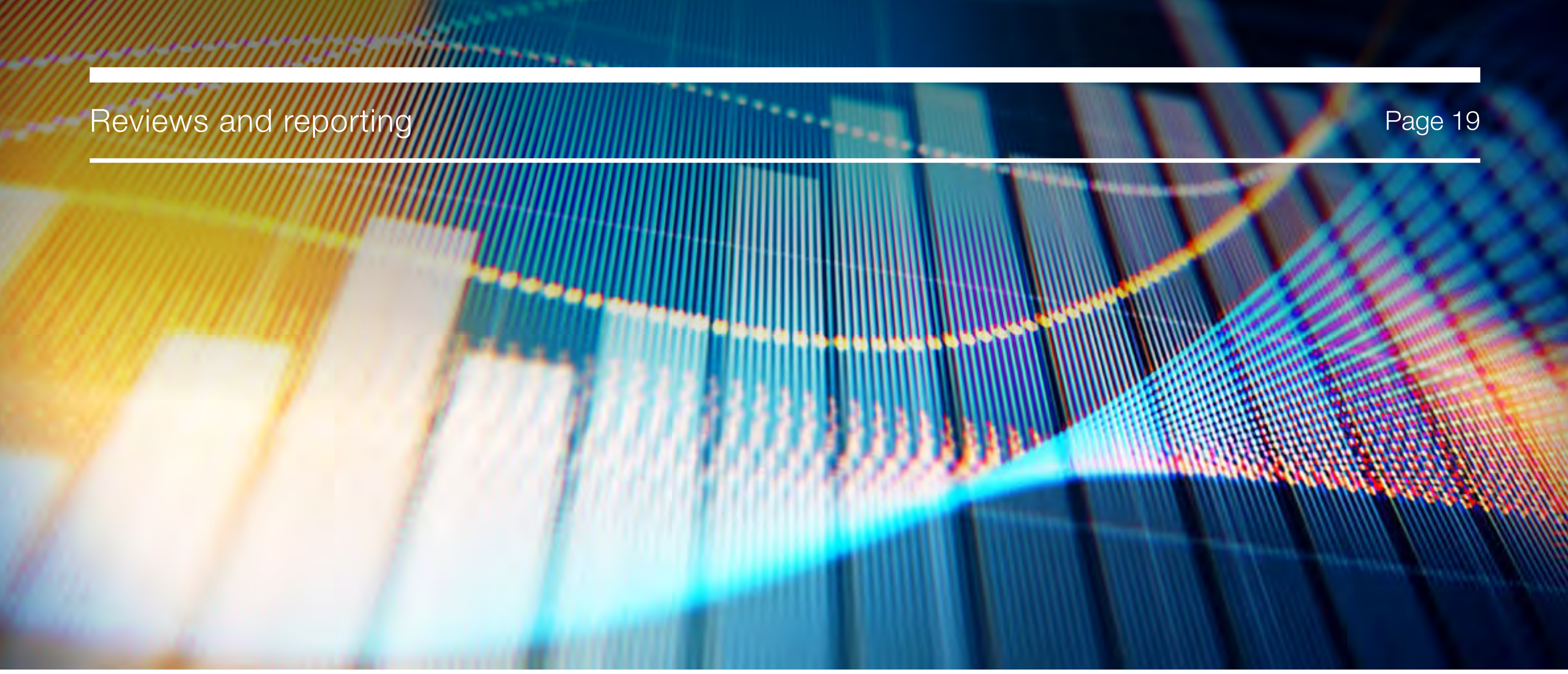
- In order to achieve the goals of the Paris Agreement, there must be widespread changes at policy-level and market-level. These changes are likely to be far more influential in the climate transition than the changes Railpen makes to its investment portfolio.
- Railpen is already a proactive participant in climate policy and regulatory debates. As part of its Net Zero Plan, Railpen commits to continuing its activities to promote progressive climate action and a just transition by policy makers and market participants, and to do so strategically with the goal of net zero by 2050 or sooner in mind. We will continue to support the Investor Agenda's Global Investor Statement on Climate Change.
- Railpen engages in policy and market-level discourse both individually and collaboratively. The individual engagements we pursue as part of our Net Zero Plan will be driven by consideration of (a) the likely extent of our influence (b) the expected importance to the climate transition of the actor being engaged and (c) Railpen's investment strategy. For example, engaging home market policy makers is justified by (a) having greater leverage with domestic policy makers (b) the potential for UK leadership particularly in the year of COP 26, and (c) our significant investment allocation to UK government bonds.
- Our near-term priorities are shown in Table 6.1. These focus on encouraging better flow of consistent and comparable climate change information across the listed and private investment chains. Medium-to longer-term policy and market engagement priorities will focus on supporting regulatory and market frameworks which push participants to achieve a just transition to net zero by 2050.
- We expect our investee companies to review their memberships and trade associations to confirm policy positioning alignment with the goals of the Paris Agreement. We will also regularly review our own memberships and trade associations to check for alignment, and report this in our climate-related disclosures.

Table 6.1

Near-term policy advocacy and market engagement priorities

	Policy advocacy	Market engagement
Stakeholders	■ Global policy makers ■ Home market policy makers ■ US and China	■ Auditors ■ Proxy Advisers ■ Peer Investors ■ Data Vendors
Activities and aims	■ Global climate policy ■ Cop 26 advocacy ■ BEIS consultations ■ Improved climate data in private assets ■ Protection of minority shareholder rights	■ Climate accounting ■ Proxy advisor engagement ■ Supporting peer investors with their net zero plans ■ Contributing to delivery of further net zero methodologies and the enabling tools and data
Key collaborations and memberships[12]	Investor Agenda, IIGCC, FRC Investor Advisory Group, GFANZ, BVCA RI Advisory Group, UKSIF, ACGA, PRI Global Policy Reference Group, PLSA Stewardship Advisory Group, CII, PCRIG	ICGN, CA100+, FRC Investor Advisory Group, RI Roundtable, ACSI, PAII, Scheme Advisory Board RI Advisory Group, SASB Investor Advisory Group, TPI

[12] *Abbreviations are defined in Appendix D*



Reviews and reporting

- The Net Zero Plan will be reviewed periodically. An annual report on progress will be delivered to the Railpen Investment Board and the Trustee Board. We will provide further information to scheme members and the wider public, drawing on the reporting expectations in the NZIF.

- The detail within the 'targets and objectives' and 'Asset Class Alignment' strategy pillars, having been set to a 2020 baseline, will be reviewed in 2023, 2025, 2028 and 2030.

- As part of regular reviews or otherwise, we will consider the incorporation of more asset classes into the Net Zero Plan. The incorporation of more asset classes depends on the availability of methodologies with sufficient rigour, their applicability to Railpen's investment strategy, and further financial impact analysis. We expect the NZIF to release methodologies for infrastructure and private equity by 2022.

- Aside from new asset classes, we will review existing asset class alignment plans with a view to identifying important data or methodological breakthroughs that can improve the Net Zero Plan. Examples include but are not limited to: identification of aligned assets; improved data coverage; reliable scope 3 GHG data; additional and more granular decarbonisation pathways.

Glossary of terms

Term	Definition
Net zero	A state in which the GHG emissions created by an organisation in a given time period are approximately equal to the GHGs sequestered by the organisation. In this document,"net zero" typically refers to the emissions and sequestration of GHGs associated with companies in Railpen's investment portfolio.
Aligned to net zero	A company which, though it might currently be an emitter of GHGs, has a credible commitment and action plan to be net zero by 2050 or sooner.
Climate solutions	Goods and services involved either in mitigating the harmful effects of climate change or in providing climate resilience.
Financed emissions	Financed emissions are GHG emissions that result from activities in the real economy financed by an investor's lending and investment portfolios. In this Net Zero Plan, Railpen's financed emissions are normalised relative to the amount of capital invested, and expressed as tCO2e/£m invested. This is referred to by PCAF as "Economic Emissions Intensity". (PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry).
Fund level	Parts of this Net Zero Plan described as "fund-level" apply, unless further qualified, to the sum of Railpen's investments in listed equities, corporate fixed income, and UK sovereign bonds.
GHG emissions	Greenhouse gas emissions relate to the emissions of gases that are capable of absorbing infrared radiation and thereby trapping within the atmosphere. The 1997 Kyoto Protocol defines six gases as GHGs: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulphur hexafluoride.
Paris Agreement	The Paris Agreement on climate change is a 2015 global accord seeking to keep the rise in global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C. As of 2021, the Paris Agreement has been signed by 191 countries, and ratified by 186 countries.
Portfolio level	Parts of this Net Zero Plan described as "portfolio-level" apply, unless further qualified, to a portfolio of securities within one of the following asset classes: listed equities, corporate fixed income, UK sovereign bonds.
Reference Targets	The PAII aims to avoid an approach to target setting that incentivises investors to take actions that reduce their impact simply to meet a specific number in a given year. For example, divesting from a company where their engagement is generating results. For this reason, portfolio level targets are defined as “reference targets”.
Scope 1 GHG emissions	An organisation's direct GHG emissions. These might be created as an organisation combusts fossil fuels, or uses fuel in transportation.
Scope 2 GHG emissions	An organisation’s emissions associated with the generation of purchased electricity, heating/cooling, or steam for own consumption.
Scope 3 GHG emissions	An organisation’s indirect emissions other than those covered in scope 2. This includes the emissions associated with an organisation's supply chain and its customers.

Appendices

Appendix A - the Net Zero Asset Owner Commitment

As institutional investors with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement and strongly urge governments to implement the actions that are needed to achieve the goals of the Agreement, with utmost urgency.

Recognising the need to address the risks investors face from climate change, investors are taking action on climate change, but we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and play our part in helping deliver the goals of the Paris Agreement.

In this context, my organisation commits to the following consistent with our fiduciary obligations:

1. Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner.
2. Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework.
3. Setting objectives and targets, including an interim target for 2030 or sooner for reducing scope 1,2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the IPCC special report on global warming of 1.5°C.
4. Where offsets are necessary, and where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.
5. Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.
6. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050, or sooner.
7. Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.
8. Setting a target and reducing our operational (scope 1 and 2) emission in line with achieving global net zero emissions by 2050, or sooner.
9. Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.
10. Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Appendix B - Paris Aligned Investment Initiative Reporting Expectations

Reporting Expectation	Reference
Report using the standard TCFD pillars/recommendations	Climate Related Disclosures 2020
Governance	
The board/ CEO should sign the relevant NZIF commitment statement	Section 3
How climate objectives are incorporated into mandates and incentives	Section 3
Strategy	
How the principles and key components of the NZIF have been used and how the targets represent the maximum possible	Section 4
How climate metrics and targets are incorporated in SAA	n.a.
How constraints have been identified and addressed	Section 4; Section 5
Key principles of NZ engagement strategy including escalation and milestones	Section 5
Metrics & Targets	
Disclose the targets set and how they were arrived at	Section 4; Section 5
Disclose the science based scenarios/pathways used to (i) guide target setting and (ii) assess alignment of companies. Disclose name of model used and critical assumptions, and explain if they meet requirements of "Box 2" in the NZIF.	Section 4
Disclose methodologies used to assess alignment and explain any inconsistencies with sections 7.1-7.3	Section 4; Section 5
Disclose performance vs target	Forthcoming progress reports
Management	
Portfolio construction approaches implemented and/or products developed to facilitate allocation to products that support net zero aligned investing.	n.a.
Engagement, stewardship and direct management actions undertaken in line with recommendations in sections 7.1-7.3, performance in relation to the engagement threshold (70%-90%), and key outcomes achieved.	Forthcoming progress reports
Voting policy and voting record, including an explanation of any deviations from the policy.	Section 5; Forthcoming progress reports
Policy in relation to exclusions or phase out of fossil fuel investments.	Section 5
Where divestment or exclusion has been used, the rationale, and the extent to which this has been the means to achieve targets.	Climate Related Disclosures 2020; Forthcoming progress reports
Information on direct and collective policy actions undertaken across the key areas for advocacy mentioned in section 6, including outcomes achieved.	Section 6; Forthcoming progress reports
Information on market engagement actions undertaken as mentioned in section 6, including outcomes achieved.	Section 6; Forthcoming progress reports

Appendix C - Sources and reference

- Paris Aligned Investing Initiative (PAII) Net Zero Investment Framework (NZIF) (2021)
- Partnership for Carbon Accounting Financials (PCAF) - The Global GHG Accounting and Reporting Standard for the Financial Industry (2020)
- Institute for Sustainable Futures (ISF) Sectoral Pathways To Net Zero Emissions (2020) and the "One Earth Climate Model" (OECM)
- Inter-governmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C (2018)
- IEA: "Net Zero by 2050 – a Roadmap for the Global Energy Sector"
- The Oxford Principles for Net Zero Aligned Carbon Offsetting (2020) UNFCCC Race to Zero
- GHG Protocol - A Corporate Accounting and Reporting Standard
- Transition Pathway Initiative toolkit
- Germanwatch Climate Change Performance Index
- Climate Action 100+ Net Zero Company benchmark

Appendix D - Membership organisations

Abbreviation	Organisation
ACGA	Asian Corporate Governance Association
ACSI	Australasian Council of Superannuation Investors
BVCA RIAG	British private equity and Venture Capital Association Responsible Investment Advisory Group
CA100+	Climate Action 100+
CII	Council of Institutional Investors
FRC IAG	Financial Reporting Council Investor Advisory Group
GFANZ	Glasgow Financial Alliance for Net Zero
ICGN	International Corporate Governance Network
IIGCC	Institutional Investor Group on Climate Change
PCRIG	Pensions Climate Risk Industry Group
PLSA SAG	Pensions and Lifetime Savings Association Stewardship Advisory Group
PRI Global Policy Reference Group	Principles for Responsible Investment Global Policy Reference Group
RI Roundtable	UK Pension Fund RI Roundtable
UKSIF	United Kingdom Sustainable Investment Forum
PAII	Paris Aligned Investment Initiative
SAB RIAG	Scheme Advisory Board Responsible Investment Advisory Group
SASB IAG	Sustainability Accounting Standards Board Investor Advisory Group
TPI	Transition Pathway Initiative

Appendix E - Classifications of sectors as 'Material', 'Non-material', 'Material - higher impact', 'Material - lower impact'

Material sectors

Nace Sector codes A-H and J-L	
A	Agriculture, Forestry and Fishing'
B	Mining and Quarrying
C	Manufacturing
D	Electricity, Gas, Steam and Air Conditioning Supply
E	Water Supply, Sewerage, Waste Management and Remediation Activities
F	Construction
G	Wholesale and Retail Trade
H	Transporting and Storage
J	Information and Communication
K	Financial and Insurance Activities
L	Real Estate Activates

Material - higher impact

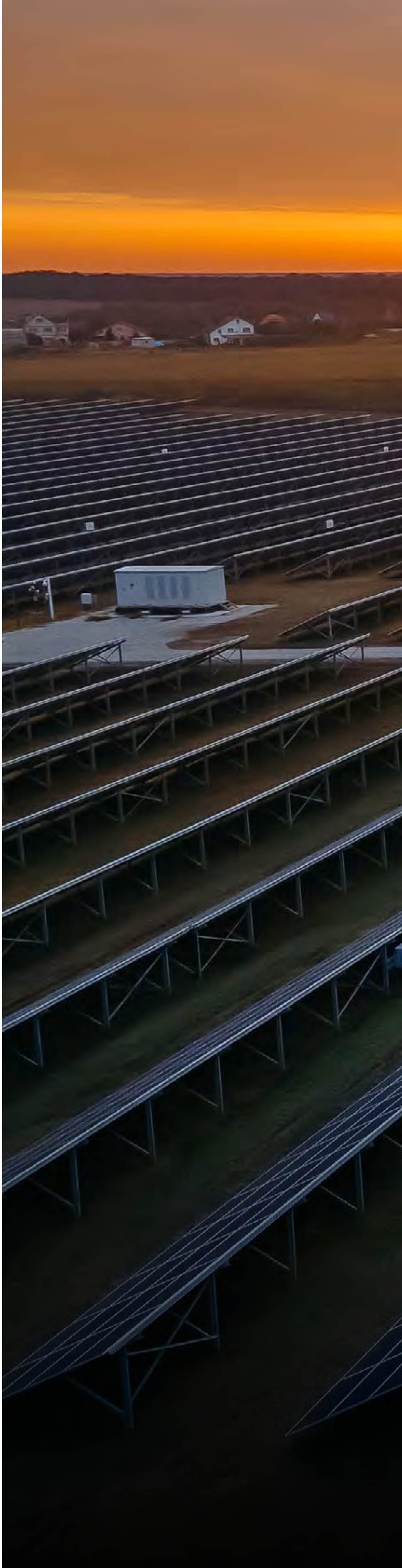
Companies on the CA100+ focus list
Companies in sectors covered by the Transition Pathway Initiative
Banks
Real Estate

Material - lower impact

All other companies/ sectors

Non-material sectors

Nace Sector codes I and M-U	
I	Accommodation and Food Service Activities
M	Professional, Scientific and Technical Activities
N	Administrative and Support Service Activities
O	Public Administration and Defence, Compulsory Social Security
P	Education
Q	Human Health and Social Work Activities
R	Arts, Entertainment and Recreation
S	Other Service Activities
T	Activities of Households as Employers
U	Activities of Extraterritorial Organisations and Bodies



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