SUSTAINABLE OWNERSHIP MEMBER REVIEW 2023

Railpen's review of our 2023 sustainable ownership work – for members of the railways pension schemes

RAILPEN

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WELCOME... FROM CHRISTINE KERNOGHAN AND JOHN CHILMAN

We are delighted to present the 2023 Sustainable Ownership Member Review.

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

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

We believe it's sensible to invest these contributions in companies that are well-run, and try to address all the risks and opportunities related to how their business works. These risks and opportunities include environmental, social and governance (ESG) issues. These could be things like climate change, such as the impact of extreme weather events on food production, or it could be a company's approach to the health and safety of its workers. We think investing like this is the best way to protect and increase the value of your savings, giving you a good retirement outcome.

Even before you receive your pension, the way we invest and manage contributions plays a major part in supporting a more sustainable future for us all.

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

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

We are not alone in this approach, so it was great that our work on sustainable ownership was recognised in 2023 through winning or being shortlisted for awards such as ESG Manager of the Year, Investment Innovation of the Year and Pension Team of the Year. Several members of the Sustainable Ownership team also received industry awards for their contributions – achievements we're very proud of.

This report gives you an insight into ESG issues and what we did on your behalf in 2023. If you want to discover more, you can find links to other sustainable ownership documents on page 18. We've tried to make this report as easy to understand as possible, but there may be some unfamiliar words or terms – we've explained these in the glossary on page 16.

We hope you enjoy reading this year's review.

Christine Kernoghan
Chair of the Trustee Board

John Chilman
Former Chief Executive, Railpen

We've focused the content of this report on what matters to you

Each year since 2021 we have asked you, as members of the railways pension schemes, what you think of our sustainable ownership priorities. We also invited you to tell us how you'd like us to communicate with you.

In 2021 and 2022, you told us that your top three areas of concern were (in order):

1. fair treatment of workers
2. climate change
3. fair pay

In late 2023, this had changed slightly and your top three areas of concern were:

1. fair treatment of workers
2. fair pay
3. making sure company boards can be held to account

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

I always feel that if they get the governance right, that may well lead to certainly social aspects of their activities being more acceptable and hopefully will lead on to the environment thing as well.

A member of the railways pension schemes
January 2024

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

- liked our reports, when you saw them
- wanted us to use real examples of our work, so you could better understand what we've been doing on your behalf
- wanted to better understand the link between what we do on sustainable ownership and how it improves financial outcomes for you as scheme members
- would like to see more information about where our biggest investments are
- would like to hear about our work more often, and
- are interested in understanding longer-term progress on issues covered in our reporting

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

We want to hear from you

We were pleased to hear you liked last year's report. We hope that the changes we've made to this year's means it's even better. Tell us your thoughts on this year's report, including the issues covered and how we've covered them, by emailing SO@railpen.com

2023 IN NUMBERS

$4.5 trillion
Amount of global pension fund assets backing Railpen's 'one share, one vote' campaign for better ways to influence companies through our vote

5
Number of awards won for our 2023 work on ESG and stewardship

38%
Reduction in the emissions of our public markets portfolio on a like-for-like basis since 2020

1,483
Company meetings where we cast votes

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

99.7%
Proportion of meetings where we were able to vote and where we cast votes

57
Companies we are engaging as part of our Net-Zero Engagement Plan

$2 trillion
Combined assets of investors which make up the Railpen-chaired, Workforce Directors Coalition, championing worker voice

YOUR PENSION SCHEME AND YOU

There are four railways pension schemes:

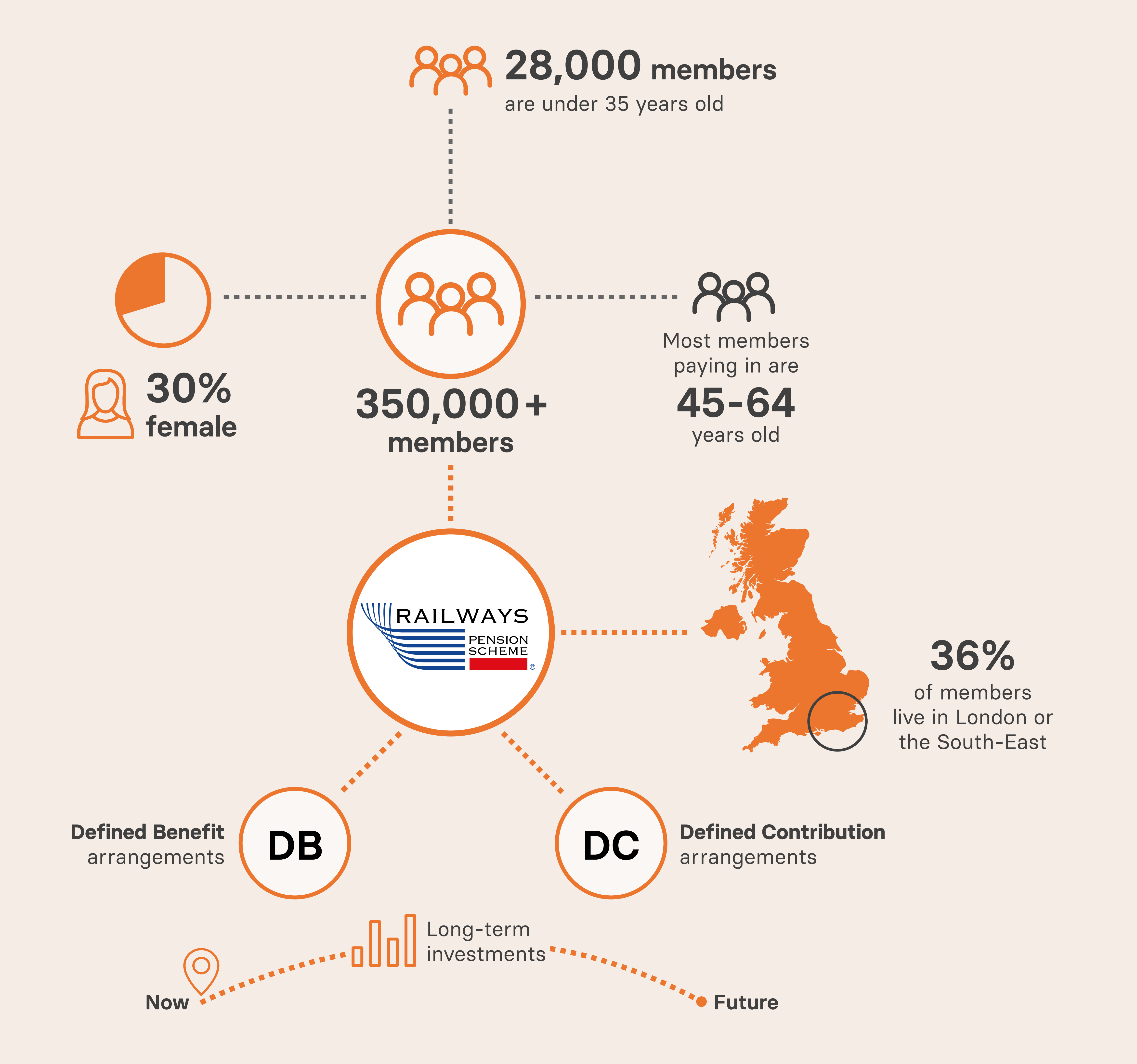
- BR (1974) Fund
- British Transport Police Force Superannuation Fund
- British Railways Superannuation Fund
- Railways Pension Scheme

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

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

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

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



WHY DO WE INVEST YOUR MONEY SUSTAINABLY?

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

This means we must continue to invest in companies best placed to succeed over the long term. Evidence shows that in order to do so, companies need to make sure their business models can deal with the sustainability challenges that are already taking place now, but will also crop up in the future.

As Chair of the Trustee Board Sustainable Ownership Working Group, I will continue to work hard to ensure our members remain at the heart of everything we do.

Peter Holden,
Trustee Director

The Trustee's mission is to pay members' benefits securely, affordably and sustainably. Railpen helps achieve this by investing in companies to protect and grow the value of these investments. We believe that well-run companies treat their suppliers, customers and workers fairly.

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

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

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

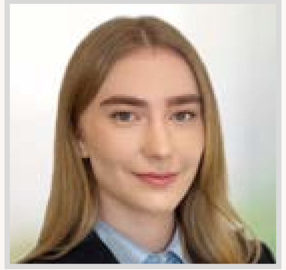
- companies listed on a stock exchange. These are called 'listed equities'
- infrastructure assets, like energy or telecoms, or
- private debt. This is lending money to companies that aren't yet listed on a stock exchange

UK STEWARDSHIP CODE

2023 awards

The Simon Fraser Stewardship Award
Michael Marshall –
Director of Investment Risk and Sustainable Ownership

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



Rising Stars of Fund Management
Sophie Harris –
Senior Investment Analyst

PROFESSIONAL PENSIONS

Professional Pensions UK Pension Awards
Winner: Investment Innovation of the Year
Shortlisted: ESG Manager of the Year

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

Sustainable ownership can help improve companies' financial performance

Better performing companies make for better investments

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

Evidence shows that ESG issues are linked to more 'traditional' ways of measuring how a company performs. These include:

- how efficiently it operates
- sales growth
- risk management, and
- challenges in its particular industry

This is why it is important for us to consider ESG factors when making investment decisions, so that we invest members' money wisely.

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

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

You can learn more about the evidence linking ESG issues and financial performance in our paper on Railpen's website: SO Insights: Why we integrate ESG.

These were our top 10 holdings in 2023

Our largest, internally-managed investments at the end of 2023 were in the following companies:

Company	Country	Sector	£m (31 December 2023)
RELX PLC	UK	Analytics	190.3
Microsoft Corp	US	Technology	188.8
Novo Nordisk A/S	Denmark	Healthcare	184.5
Accenture PLC	UK	Professional services	181.8
L'Oreal SA	France	Cosmetics	176.6
ServiceNow Inc	US	Technology	159.9
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	Industrial	153.3
Amazon.com Inc	US	Technology	152.9
Atlas Copco AB	Sweden	Industrial	150.7
Meta Platforms Inc	US	Technology	141.0

We're focusing on four priority ESG themes

We regularly talk to companies about the ESG topics that are specific to them. However, we also focus on major ESG issues that affect either all or many of the companies we invest in. We call these 'ESG themes', and examples include climate change, fair pay, and cybersecurity. These were our priority ESG themes in 2023:

Worth of the Workforce

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

Sustainable Financial Markets

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

Climate Transition

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

Responsible Technology

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

WHAT WE DID ON YOUR BEHALF IN 2023

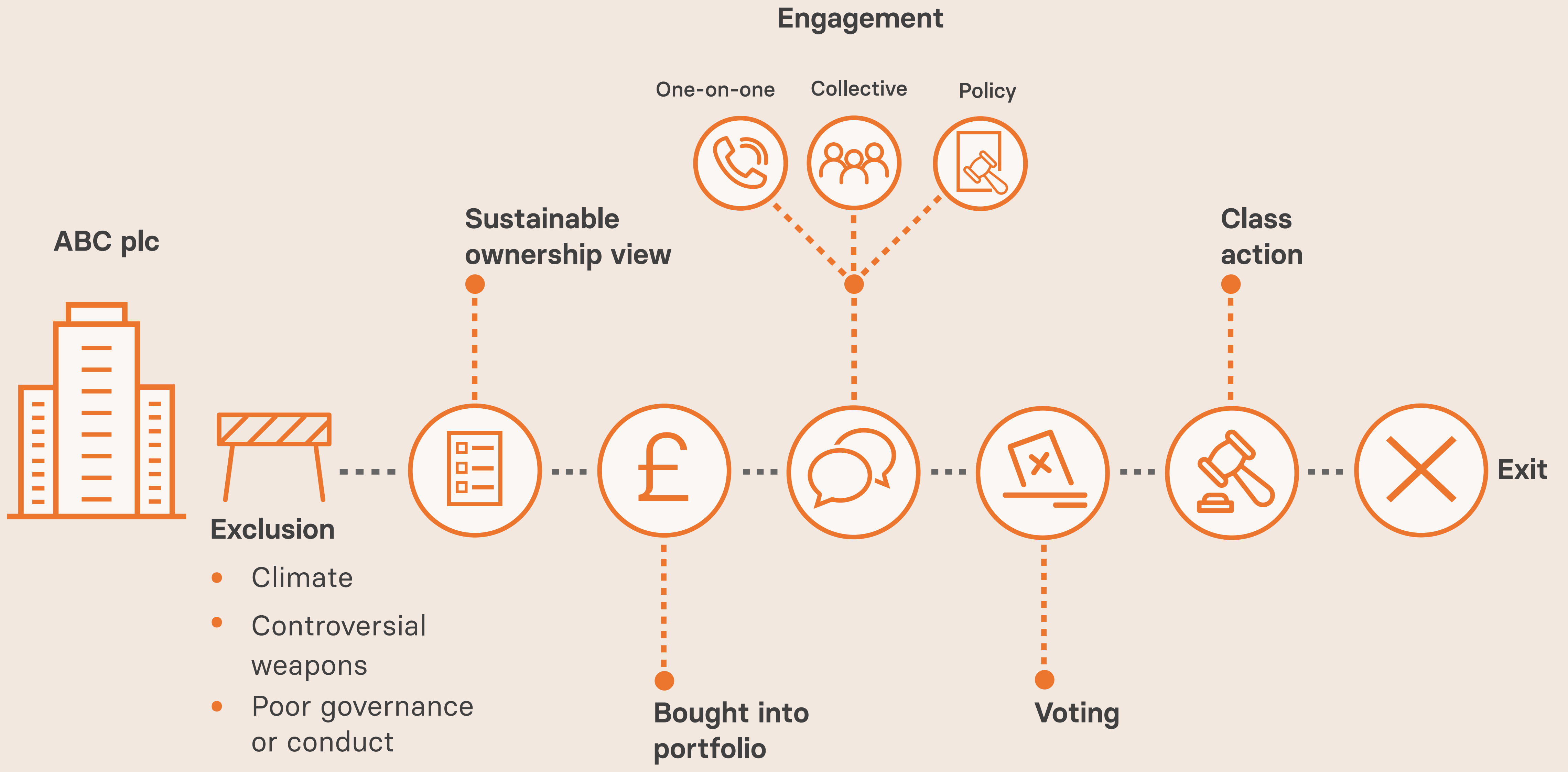
We do everything we can to encourage companies to act responsibly and address the impact of governance and sustainability issues, not only on their business operations, but also on the world into which our members will retire.

We can do this in a number of ways:

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

This image (right) explains how, and in what ways, the Railpen team may seek to have an influence on sustainable ownership issues at portfolio companies.

Opportunities for sustainable ownership influence over the lifecycle of an investment



In the rest of this section, you'll find some case studies on the issues that we know matter most to you. Further details and more case studies can be found in our 2023 Stewardship Report.

2 *A full list of the questions we have asked at AGMs each year can be found on Railpen's website at https://www.railpen.com/knowledge-hub/engagement/agm-statements/*

We want companies to treat their workers fairly

In our 2023 member survey, you continued to say that fair treatment of workers is your top ESG concern. We believe that how well companies treat their employees is critical to their long-term success. Railpen has long worked with companies to understand how they look after their employees and make sure they are motivated, skilled, safe and happy.

Case study 1: Our work on workforce and worker voice issues in 2023

The issue

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

In last year's report, we discussed how we worked with companies to improve the information they provided on how they treat their workers. In 2023 and 2024, we wanted to build on this work to address the following issues:

1. A narrow and outdated approach by most companies to engaging with their workers
2. Inconsistent approaches to workforce issues by other investors
3. Limited consideration by global policymakers of workforce issues

What we did

We recognise that we cannot necessarily achieve change by ourselves – we need to work with others. This includes collaborating with other investors who share our goals and also helping to shape the policy and regulatory framework for the companies we invest in.

On workforce issues, we did the following in 2023 to try to achieve change:

- **Worker inclusion and voice:** We launched an initiative with other investors to encourage companies to improve their engagement with their workers. Together, we spoke to companies who we thought most needed to improve and published practical help which is available to all.
- **Investor approaches to workforce:** We worked with the UK government's Taskforce on Social Factors (TSF) and helped draft guidance for other investors on how to consider workforce treatment issues in their investment strategies. We provided examples of Railpen's work in this space to help others.
- **Influencing global policymakers:** It's important that companies around the world, not just in the UK, do more to usefully talk about how they treat their workers. This information helps investors like Railpen understand where and how to influence companies to improve workforce treatment. Railpen therefore engaged with global standard setters to encourage them to include workforce issues in their work.

What's changed as a result

Worker inclusion and voice:

More investors have joined our coalition, more than doubling the assets in support of this initiative, showing that backing for the workforce director model is growing. We have had some good conversations with companies. But we have also had to use public forms of pressure – such as statements at their AGMs[3] – to obtain meetings with other companies so we can make our case and understand their approaches.

Investor approaches to workforce:

The guidance and our case studies have received good feedback from other investors. Shifting industry attitudes takes time, but both Railpen and the TSF continue to speak to pension schemes and asset managers about how to incorporate workforce issues into investment strategies.

Influencing global policymakers:

It's too soon to say what the impact of our work to engage global standard setters and policymakers will be. We will be in a better position to report on this in next year's report.

3 *Railpen's AGM statements can be found on Railpen's website at https://www.railpen.com/knowledge-hub/engagement/agm-statements*

Treating workers fairly – how we influence companies

Where we think companies are not treating their workers fairly, we will first try to influence them to improve. Often this is enough to achieve the outcome we want. However, if they do not make the necessary improvements in time, we will 'escalate' our activities and may even withdraw our investment/stop investing in them.

Case study 2: Worker conditions and withdrawing our investment

The issue

We had an investment in a France-listed business services company. In 2022, there were credible and severe allegations about poor worker conditions in a very challenging part of the business based in Colombia, where workers provide a service to social media companies to edit and remove the worst content posted to their sites (this is called 'content moderation').

At the time, the company denied the claims and said similar allegations had been made previously but had been proven incorrect.

What we did

Although we had previously spoken to the company about its workforce treatment, after these allegations we met again with the company to get a better understanding of the situation and to encourage them to improve their approach to worker treatment. We also encouraged the company to exit the 'content moderation' business, which constituted a small part of their total revenues in South America. We were pleased that the company agreed to do this.

The company also signed an agreement with a local union on working conditions.

What's changed as a result

These actions meant that the share price recovered to 90% of where the company traded before the allegations.

However, the company unexpectedly decided to resume its business in 'content moderation' and additionally acquired a content moderator company. We met with the company to understand what we saw as a change in its approach and asked how much due diligence had been undertaken into the acquired company's approach to workforce relations.

We were unable to get comfortable that these risks were being managed appropriately. We therefore decided to sell our position in the company. Our stance was vindicated by the fact that the company's value fell by 30% in the immediate aftermath of their reneging.

Although ideally we prefer to influence improvements in company practice, if we think a situation won't improve, we have to protect members' capital before our investment is affected by the the company's behaviour.

Climate change

The effects of climate change, such as rising sea levels, ocean acidification, extreme weather and droughts, are already having an impact on people's lives and livelihoods around the world. Experts recommend limiting global temperature rises to 1.5 degrees Celsius above pre-industrial levels[4], to avoid the worst impacts – including economic and financial impacts. It is a priority for us to work towards a 1.5-degree world, whilst ensuring we generate the investment returns required to meet our members' pension objectives.

Where possible, we prefer to remain invested in companies, retaining our stake so we have a voice to improve company behaviour. In some cases, however, we think that climate-related business risks are so extreme that we choose not to invest at all. The railways pension schemes were some of the UK's first pension schemes to divest from companies on climate grounds[5].

Case study 3: Assessing companies' climate risks to shape how we engage

The issue

Climate change is a complicated issue, affecting different companies in different ways. Before we think about which companies to speak to, and what they need to improve, we need to understand which companies are most affected by climate change and how. We built our own climate-risk assessment framework to help us understand these risks at individual companies. This helps determine what we talk to them about.

After we have tried to influence these companies' behaviour on climate change, we can then re-assess them against our framework. This helps us measure the progress made and understand how any conversations we are having with them may need to change.

Two companies we assessed in this way in 2023 were Nucor, a large US-based steel producer with a high emissions footprint and WEC Energy, a substantial US electric utility with a reliance on coal-fired generation.

What we did

Our assessment uncovered that Nucor is also North America's largest recycler of scrap metal and a leading scrap broker, with significant use of electric arc furnace technology (highly efficient) and a sensible management team. We decided to engage with Nucor on setting robust climate targets, improving their climate disclosure and developing a decarbonisation strategy.

We also found that WEC Energy had a strong management team that was committed to reducing its emissions and transitioning to a mix of renewables, nuclear and gas-fired power generation. We therefore focused our conversations with the company on accelerating this phase-out of coal, setting net-zero targets and improving climate governance.

What's changed as a result

Nucor lowered the emissions intensity of its steelmaking operations through, for instance, increasing recycling and procuring renewables power for its electricity use. It also achieved a better externally assessed score for the quality of its climate-change management as a result of improvements made.

WEC Energy improved its climate reporting and scenario analysis, as well as increasing its renewables investments and accelerating its targets for the phasing out of coal. Its climate management quality score also improved.

We will continue to encourage improvements in how these companies manage climate risk and how they link progress on issues from climate change to pay for senior executives, amongst others.

4 *'Pre-industrial levels' is generally defined as the average global temperature before the start of the Industrial Revolution in the 18th century.*

5 *Further information can be found in the Railways Pension Trustee Company Limited (RPTCL) 2023 Taskforce on Climate-related Financial Disclosure (TCFD) report at https://www.railpen.com/knowledge-hub/reports/rptcl-2023-taskforce-on-climate-related-financial-disclosures/*

The importance of companies being well-run

The term 'corporate governance' represents the 'G' in ESG. It may sound boring, but it is really important, because this is how the companies we invest in demonstrate that they are well-run and are paying attention to the views of shareholders, like Railpen, who have invested capital in them. We want a firm's senior executives to be:

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

We talk about corporate governance a lot at Railpen. Whether a company is well-run is one of the most important factors in whether it performs well, and acts to manage environmental and social issues. When we held focus groups with some of our pension scheme members, they told us this was one of the areas that mattered most to them. Our December 2023 member survey also found that "making sure company boards can be held to account" – a necessary ingredient for ensuring a company is well-run – moved into the top three priority issues for the first time.

We have previously mentioned many of the traditional ways for investors like Railpen to influence company behaviour, such as voting at company AGMs and speaking to senior executives. As well as speaking to companies directly, we think that influencing the policy and laws of a country that affect how a company is structured, or how it considers ESG issues, can be a powerful tool for change.

This is why we dedicate some of our time each year to speaking to policymakers. We push for positive policy change where we think it will make a difference to outcomes for members of the railways pension schemes.

Case study 4: Advocating for measures to help us hold company boards to account

The issue

Our right to vote at a company AGM is a powerful tool for holding company boards to account and to ensure they are acting in the best interests of members[6].

As with political democracy, where each person has one vote each (and everyone's vote counts equally), the system of shareholder democracy at the companies we invest in suggests that for every one share an investor holds we get one vote.

Unfortunately, many American companies unfairly skew the voting system. They do this by giving insiders, such as the company founder and their family, more than one vote per share. Often they get 10, 20 or 50 votes per share, while independent investors like Railpen get one vote per share – or sometimes no voting rights at all. This means companies have little reason to listen to what their investors are saying.

We call these 'unequal voting rights'[7]. Evidence shows that the presence of unequal voting rights at a company can damage its performance, potentially leading to worse outcomes for investors and, ultimately, scheme members.

Although the UK market has historically banned unequal voting rights in all but a very narrow set of circumstances, in 2023 the UK financial regulator (the Financial Conduct Authority, or FCA) proposed changes to further allow unequal voting rights for UK companies.

Railpen believed this would roll back a fundamental investor protection and lead to worse outcomes for members. We knew that most other investors agreed with us. Unfortunately, the time available to respond to the FCA's proposals was very short and any response had to happen at a time when most investors are busy voting at thousands of company AGMs.

What we did

Railpen had an advantage on this issue, having set up now $4.5 trillion Investor Coalition for Equal Votes (ICEV) in 2022[8]. The Coalition is dedicated to pushing back against unequal voting rights. This gave us a useful additional level of expertise and meant we already had a lot of evidence to show that the proposed changes would be harmful to outcomes for members.

We therefore helped galvanise a response from dozens of others in the industry, as well as supporting some of our membership associations to produce their own responses.

We also drafted and sent a public letter outlining our concerns and those of other investors. This received significant levels of attention from the media and policymakers. A group of investors 'going public' with its concerns can be useful in helping achieve change, particularly when there is little time to respond and when the changes being proposed are potentially highly detrimental.

Railpen accompanied this activity by holding both individual and group meetings with senior government and regulatory officials to express our views and talk through our evidence.

6 *You can read more about how we vote on particular issues at companies in our Voting Policy at https://www.railpen.com/knowledge-hub/reports/voting-policy-2024/*

7 *These are also known as 'dual-class share structures' (DCSS) or dual-class stock. Like many corporate governance issues, it sounds very dry and technical, but it is really important and evidence shows that the presence of DCSS can lead to a decline in firm value only a few years after going public. Please see the glossary in this Member Review.*

8 *You can read more about ICEV in previous Member Reviews on Railpen's website at https://www.railpen.com/knowledge-hub/reports/ or you can visit the ICEV website at https://www.icevequalvotes.org/*

What's changed as a result

We heard from the regulators that they had received an "unusually high" number of responses from the industry. We also understand that the proposals were delayed while policymakers worked through our evidence and the large amount of written and verbal feedback they had received from investors.

Unfortunately, sometimes it is not the right time for the evidence and arguments to be heard. Although some of Railpen's minor suggested policy improvements will likely be taken forward, the regulator decided to go ahead and allow unequal voting rights at UK companies, damaging our ability to influence companies in the interests of members.

Railpen always takes a pragmatic approach. We will try to make the best of the situation and continue to use other influencing tools with companies. However, given the importance of voting rights to outcomes for companies, investors and members, we will work to find other ways to bring the industry together in a longer-term campaign, alongside our work through ICEV, that continues to push back against unequal voting rights in the UK and elsewhere.

OUR PLANS FOR THE NEXT 12 MONTHS

While Railpen has been successful in its work on sustainable ownership, including some award wins in 2023, we are always trying to do better, and work harder, on your behalf. This section gives you an insight into some of the things we are working on over the coming year to help achieve our purpose of securing our members' future.

We will review our ESG themes

We mentioned here our work on four thematic priorities:

- Worth of the Workforce
- Sustainable Financial Markets
- The Climate Transition, and
- Responsible Technology

These are 'big picture' issues that our research shows will impact either all, or most, of the companies we invest in.

Because these issues are so wide-ranging and potentially impactful, we know that to achieve change requires time and dedicated resource. We have therefore focused on the same themes for the last few years, to give us time to influence and achieve change. Next year we will review whether the issues are still those which will likely have the biggest impact on outcomes for members. We will consider whether we need to adjust some of the focus areas within each of these themes.

We will update you on the outcome of this in next year's Member Review.

We will continue to deepen sustainable ownership across the portfolio

Please see the glossary for an explanation of each asset class.

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

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

- 21% allocated to private market investments, including infrastructure investments such as wind farms, and
- 20% allocated to fixed income or debt instruments[9]

We have already been working to deepen our approach to sustainable ownership across several of these asset classes, and we will continue to do so in the next year. This includes refining the broader ESG information we look for from our infrastructure assets to help us identify trends and further developing the framework we use to assess progress.

You can find out more about some of our existing work on sustainable ownership in our infrastructure fund (also known as our Long-Term Income Fund) on Railpen's website.

We will keep talking to you, our scheme members

We have several ways that help us understand members' views on sustainable ownership issues. We speak to the Trustee, as well as to representatives on Pensions and Management Committees and our Sustainable Ownership Client Forum[10].

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

Feedback from previous surveys has, for instance, been used to shape how and when we communicate our sustainable ownership work to you. In member focus groups held this year, you also told us you wanted us to work more closely with employers on communications on sustainable ownership issues – we will continue to deepen our work on this in the next year.

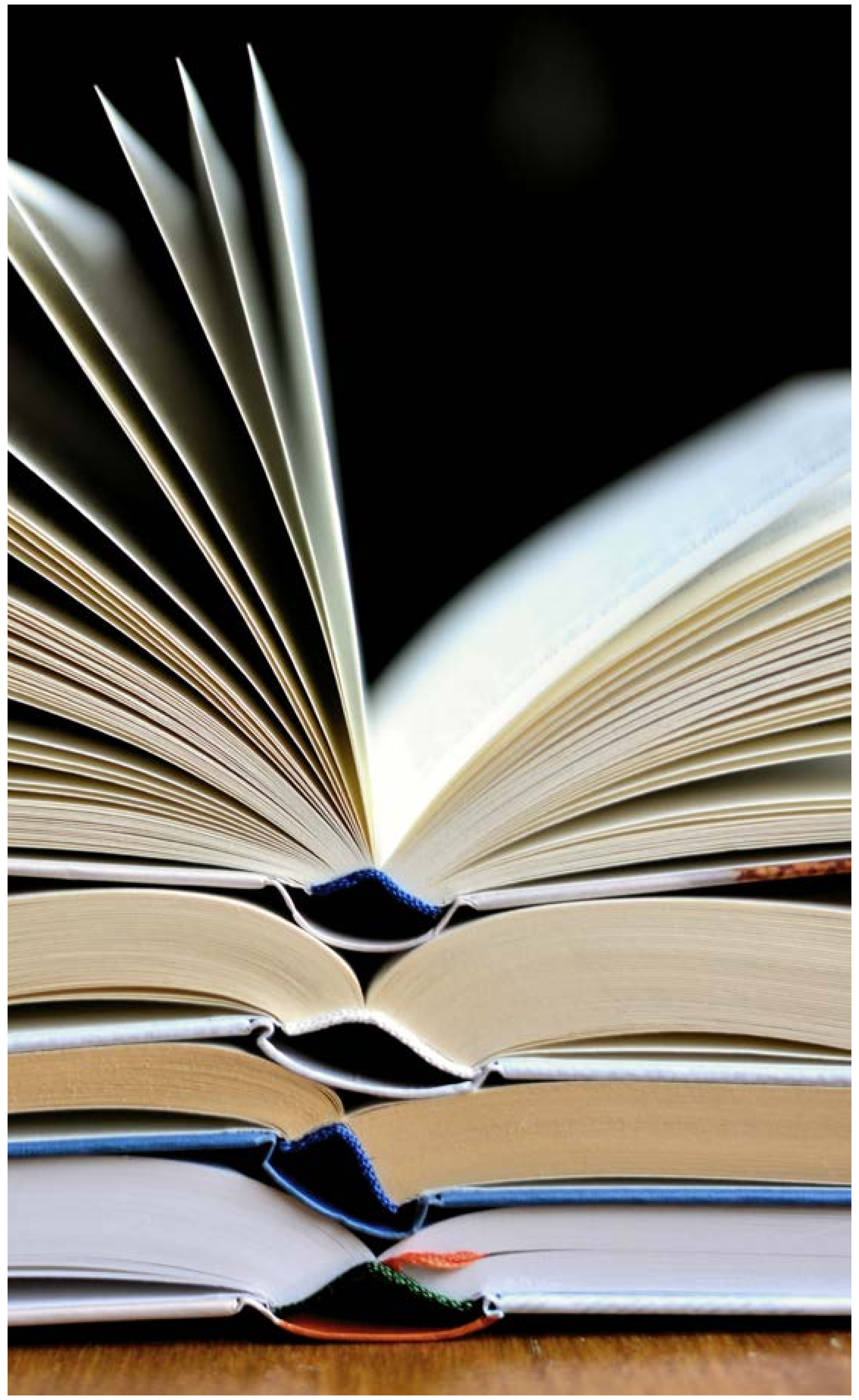
We'll let you know how you can get involved in this year's survey via your member website and your usual member communications.

9 Figures correct as at 31 December 2023.

10 Further details of how and when we speak to these different bodies can be found in our 2023 Stewardship Report at https://www.railpen.com/knowledge-hub/reports/stewardship-report-2023/

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 they are trying to achieve. There is usually a strong 'human element' involved. Either one person, or a team, will decide on individual investments. The same people might also create a broader approach that can be applied more generally to investment decisions. Please also see 'Passive (management)'.
- **Advocacy (or public policy):** Activities undertaken to influence policymakers and regulators. This includes meetings, roundtables, responding to government requests for evidence, either individually or through a membership body.
- **Annual General Meeting (AGM):** A meeting held once a year by a company with its shareholders, where important information is discussed and where shareholders are invited to vote on issues like how much directors should be paid, or whether the directors should be (re-)elected. Most listed or public companies must hold an AGM. Please also see 'Abstain' and 'Voting'.
- **Asset class:** A group of financial instruments which have shared behaviours, characteristics and types of risks. Such groupings include 'equities', 'debt', 'infrastructure' and so on. Investors like Railpen will usually spread their investments across different groups of financial instruments (or asset classes), to help manage risk, although the precise proportion of money allocated to any one grouping will change over time. Please also see 'Equity (share)', 'Debt (or credit)', 'Infrastructure' and 'Private markets (or private assets)'.
- **Class action:** Lawsuits in which a large group of people collectively sue another party. A common example of class action cases is securities class actions. This is where investors who believe the value of their investments has been damaged by improper conduct on the part of company executives or board members aim to recover their financial losses.
- **Decarbonisation:** A company's approach to reducing its production of greenhouse gas emissions (please see 'Greenhouse gas emissions (GHGs)').
- **Defined Benefit (DB):** A pension scheme where the amount of pension you're paid is based on how many years you've worked for your employer and the salary you've earned.
- **Defined Contribution (DC):** A pension scheme where you build up a pot of money that you can use to provide an income in retirement. The income you get depends on factors such as the amount you pay in and for how long, the fund's investment performance and the choices you make at retirement.
- **Divestment (or disinvestment):** The process of an investor selling all a company's debt or equity instruments, if already invested.
- **Debt (or credit):** If an investor buys a debt instrument, they loan capital to a firm. This entitles them to interest from the debtor company over a fixed term until the loan is repaid. Debt can be listed i.e. bought and sold on an exchange or privately-held (private debt) i.e. it is a loan to a private company that is not listed on an exchange.
- **Engagement:** Communicating with a person or organisation with the aim of raising an issue or achieving change.



- **Equity (share):** Buying a share (or equity instrument) gives the owner (shareholder) an ownership right/stake in the firm in return. The owner has the right to vote and a claim on future profits, for example through dividends. An equity instrument can be listed (or public) i.e. bought and sold on a stock exchange or privately-held (private equity) i.e. it is a stake in a private company that is not listed on an exchange.
- **ESG:** The collective term for referring to 'environmental, social and governance' issues. Here are some examples:

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

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

  Governance
  - Board structure
  - Executive remuneration
  - Bribery and corruption
  - Separate Chair and CEO roles
  - Shareholder rights
  - Vision and business strategy
  - Voting procedures
- **ESG integration:** Considering environmental, social and governance (ESG) issues as part of the analysis and decisions for the companies we invest in.
- **Exclusion:** Not allowing the purchase of any of a company's debt or equity instrument and its inclusion in an investment portfolio.
- **Greenhouse gas (GHG) emissions:** A greenhouse gas is 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 emitted, 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):** An investment management style which very closely follows a market index which is an externally chosen pool of assets. Examples of a market index include the 'FTSE 100' which is a collection of the largest and most valuable UK companies. Please also see 'Active (management)'.

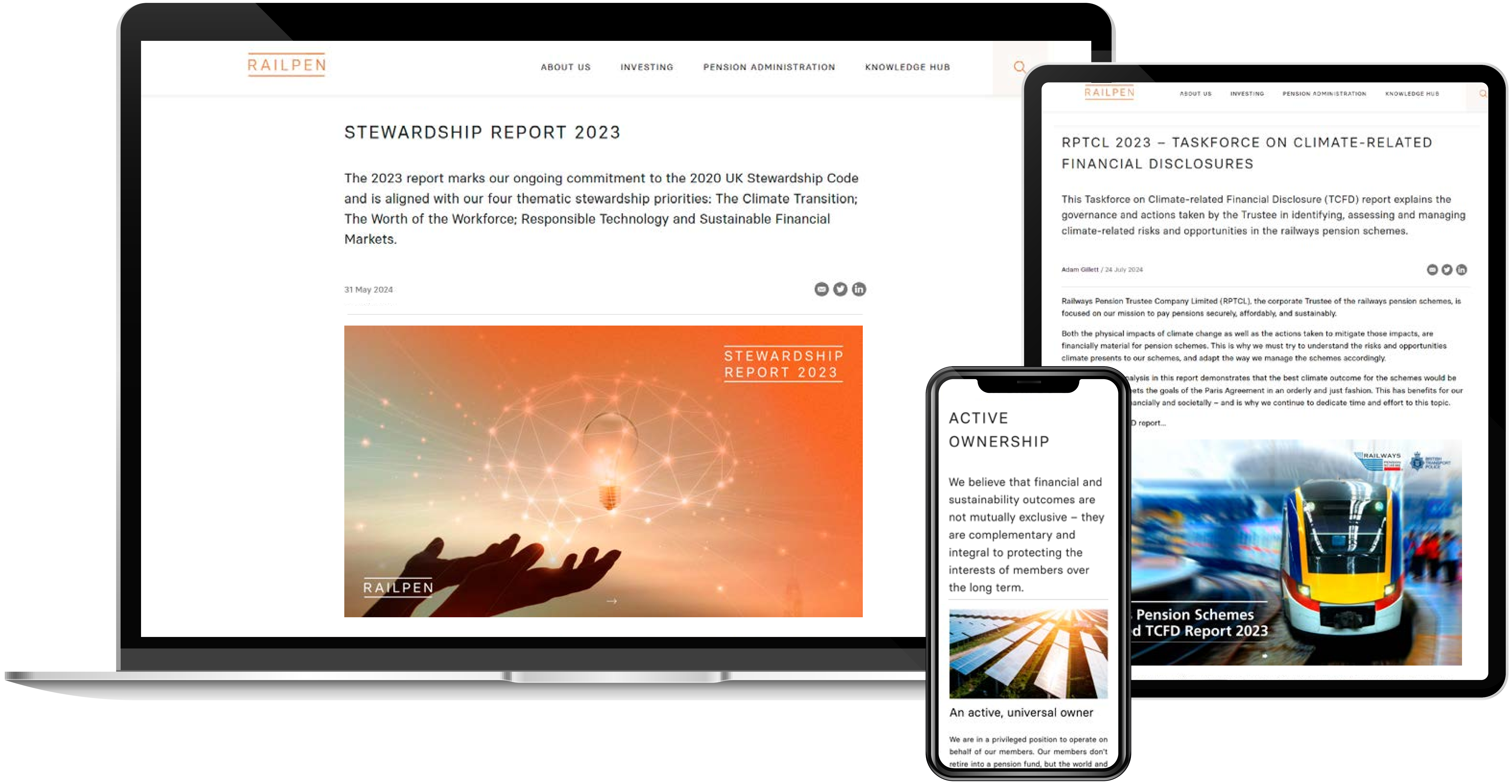
  Portfolio: A collection of financial investments, which could include equities, credit or infrastructure or other investments.
- **Private markets (or private assets):** An asset that is not traded on a public exchange or stock market. Please also see 'Equity (share)'.
- **Net zero.** A state in which the greenhouse gas (GHG) emissions put into the atmosphere are approximately equal to the GHG emissions taken out of the atmosphere. Please also see 'Greenhouse gas (GHG) emissions'.
- **Risk-adjusted returns:** A measure that takes into account how much risk is taken to achieve a particular return.
- **Shareholder:** The owner of shares (equities) in a company.
- **Shareholder resolution:** This is a proposal that is submitted by shareholders for a vote at the company's annual meeting, in an attempt to influence the company to take a desired action. Please also see 'Voting (a vote)'.
- **Signatory (signatories):** A company that has signed up or committed to an initiative.
- **Stewardship:** Monitoring, understanding and looking to influence the behaviour of the companies we invest in. Stewardship involves using tools such as engagement, voting and advocacy as ways to shape corporate behaviour.
- **Voting (a vote):** Being a shareholder in a company (usually) gives us the opportunity to vote on company matters at meetings such as an Annual General Meeting (AGM). The issues we can vote on include executive pay, the election of board directors, a climate change plan, and the financial report and accounts. Please also see 'Abstain' and 'Annual General Meeting'.

HERE'S WHERE YOU CAN DISCOVER MORE ABOUT SUSTAINABLE OWNERSHIP

You can find further details of Railpen's work on the responsible investing page on Railpen's website:

- **2023 Stewardship Report** – a detailed look at our stewardship activities over 2023.
- **2023 TCFD Report** – provides details of our progress each year on climate issues.
- **2024 Global Voting Policy** – our approach to voting on key governance and sustainability issues for the 2023/24 voting season. This is updated each year.
- **Active Ownership webpage** – includes links to our UK voting records, questions we have asked at company AGMs, our policy responses and much more.

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



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