

RPMI Railpen Engagement Policy

This document describes RPMI Railpen's global engagement policy, and how it aligns with our approach to voting.

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Introduction

The Railways Pension Trustee Company Ltd (the Trustee) is responsible for managing four railways pension schemes:

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

The Railways Pension Scheme (RPS) is the largest of the four and was created in 1994 after the privatisation of the railway industry and reorganisation of the British Rail Pension Scheme. It is one of the largest schemes in the UK. It provides pensions for over 150 companies operating within the privatised railway industry. The Trustee's investment [beliefs](#) inform the investment process used across the Scheme.

The Trustee's expectations are reflected in the Voting and Engagement Policy within our Statement of Investment Principles ([SIP](#).) The Trustee Company considers the responsibilities of stewardship to be part of its fiduciary duty to its beneficiaries. RPMI Railpen (Railpen) carries out investment management and related activities on behalf of its client, the Trustee.

Our investment process considers environmental, social and governance factors through four lenses:

- Improving investment returns
- Reducing investment risk
- Impacting Railpen's reputation as a responsible investor
- Impacting the future world our beneficiaries retire into

The Railways Pension Scheme includes an open defined benefit scheme, which means that the Trustee expects to be paying the pension of an eighteen year old who is in their first job today out to 2100 and beyond.

Potential conflicts of interest within our stewardship activities are addressed in three ways:

- The Trustee Company expects its external asset managers to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship and investment practice. We also consider conflicts of interest in our appointment and monitoring of service providers.
- Under the Code of Conduct, Railpen staff are required to disclose any interest in any company, or other entity, in which the Trustee Company has an ownership interest. The compliance function runs a corporate watch list and a personal securities and investments dealing policy to further limit conflicts of interest.
- The Trustee Company's voting policies are applicable to all listed companies, including without exception those that participate as employers in railway industry pension schemes.

This policy should be read in conjunction with the other materials on the Railpen website, including the Sustainable Ownership Annual [Reports](#). Enquiries from portfolio companies on any aspect of the Trustee Company's approach to stewardship and responsible investment should be emailed to so@rpmico.uk:

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Overview

Railpen employs an in-house Sustainable Ownership (SO) team who work with our internal investment teams and our external managers to monitor the portfolio, vote and engage where necessary.

Railpen uses a mix of internal and external management, and both internal and external mandates are designed to align with the long-term perspective of our beneficiaries. Our equity portfolios are invested on both a quantitative and fundamental basis.

Sustainable Ownership (SO) reviews are carried out for all investments in our fundamental equities portfolio and all private market transactions prior to investment. This process is integrated with our active ownership activities ensuring any concerns identified in the SO assessment will be reflected in our voting and engagement approach.

Oversight of active ownership

Both the Investment and Sustainable Ownership teams sit within Railpen. The Investment team reports up to the Chief Investment Officer, and the Sustainable Ownership team reports up to the Chief Fiduciary Officer. This separation of reporting lines ensures the Sustainable Ownership team can oversee the work of the Investment team, as well as working collaboratively to integrate material ESG factors. The Chief Investment Officer and the Chief Fiduciary Officer both report to the Managing Director, Investments.

Regular meetings are held between the Investment and Sustainable Ownership teams. Railpen's approach in Public Markets, Private Markets and Real Assets is detailed on our [website](#).

Company dialogues and opt-ins to specific coalitions are regularly reviewed with the CIO and the Public Markets team at the Active Ownership Monthly meeting. Typically we will write to the company seeking either an in-person meeting or a phone call, either with management or the Board. Most of our dialogues begin in September when the voting policy for the following year is published.

After the initial discussion, up to three engagement targets will be created for each company, with input from the Fund Managers if the company is held in our Fundamental Equities strategy. Short term targets are typically for improved disclosure, and medium or long term targets will be looking for a substantive change in practice. Targets are signed off by the Investment Team throughout the year. Progress against the targets is reviewed on an annual basis each summer.

These regular meetings with the CIO and the public markets team will include an update of any key policy developments.

Railpen retains control of its [voting policy](#), including where possible, over its underlying beneficial interests in pooled funds, and has centralised vote execution. The global voting policy is reviewed every summer in the regular meeting between the Sustainable Ownership team and the CIO and the Public Markets investment team

The global voting policy reflects RPMI Railpen's three key themes of:

- (i) board composition and effectiveness
- (ii) remuneration
- (iii) shareholder rights, risk and disclosure in a way that is accessible to our portfolio companies, our external managers, members and beneficiaries.

Railpen retains various external voting advisory and execution services to ensure that, where practical, its voting rights are routinely exercised in support of corporate governance best practice where practical. Voting is agreed with the Investment team for companies held in the Fundamental Equities strategy, along with any controversial, high-profile votes which are discussed with the CIO.

We define significant votes¹ as follows:

- Where we hold a sufficient proportion of the stock to report our holding to the appropriate regulatory authority
- Contentious votes which were referred to the CIO and the Investment team

In 2019, there were three companies which met this test.

Companies which met the holdings test during the period are IP Group plc and the former Funding Circle SME Income Fund (now known as the SME Credit Realisation Fund.)

IP Group plc

Railpen voted against their remuneration policy and report at the 2019 AGM. We have been in dialogue with the company with a view to encouraging remuneration practices we can support at the 2020 AGM.

Funding Circle SME Income Fund

At the 2018 AGM, we voted against the re-election of Richard Boleat, the chair of the nominating committee, as there are no women on the board. Subsequently we engaged with the company and were pleased to see them produce a board diversity policy in early 2019.

Voting at the May 2019 AGM of Exxon Mobil Corporation was agreed with the CIO and the Investment team.

Example of a high-profile vote in 2019 referred to the CIO

As supporters of CA100+, we were disappointed that Exxon asked the SEC to keep a CA100+ shareholder resolution off the ballot. Railpen voted against directors Frazier and Reinemund due to concerns over the Board's oversight of climate risks. As a comparator, BP plc placed a CA100+ resolution on their ballot with management support, which is an example of the type of constructive action we seek from our portfolio companies.

We publicly disclose our [voting records](#) for all company meetings since 1 January 2016 on a public website via a link from the voting records page on our website. From October 2018 Japanese voting records have been disclosed via this service.

Our funds participate in various stock lending programmes administered by our Middle Office. No more than 90% of our total exposure should be out on loan at any one time. We will recall stock to vote where there is an important issue and the voting outcome is expected to be close.

The Sustainable Ownership team presents an annual update of our work to the Trustee Board, which is used to shape our priorities, alongside the feedback we receive from the Railpen Investment [Board](#).

¹ Using the terminology of the revised EU Shareholder Rights Directive

Company Engagement

There are four target lists in the public equities portfolio, which are:

List name	How selected?	Why engage?	How engage?
Fundamental equities	Companies held in our active strategy	Financial materiality	Direct, then collective to escalate
Top holdings	Companies held in our quantitative strategy, typically in our top 100 listed equity holdings	Financial materiality	Direct, then collective to escalate
Thematic	Via collective engagements on relevant themes	To signal Railpen's expectations	A letter seeking a group dialogue
Exclusions	Problematic companies at risk of exclusion	To verify the third party screening data	Direct, to understand their perspective on controversies

Constructive engagement with portfolio companies supports our objective of enhancing the long-term investment return for our beneficiaries. We will engage with companies when we consider it is in our beneficiaries' long-term interests to do so. We will endeavour to identify problems at a sufficiently early stage to minimise any loss of shareholder value. This approach may be adopted irrespective of whether the company is held in an active or passive strategy.

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

If portfolio companies fail to respond constructively, we will consider whether to escalate action, including the following approaches:

- Seeking a meeting with the company, whether management or Board directors, to highlight our concerns
- Voting against the election or re-election of a director, who has displayed poor conduct, or where the company has not shown sufficient responsiveness to shareholder concerns
- Making a public statement at the company's meeting
- In extremis, advising our internal or external managers to consider selling our shares in the company

If we think there is a long-term risk to the value of the investment or significant reputational risk we will consider selling our holding, from our internally-managed portfolios.

There are three exclusion lists, which relate to climate, cluster munitions and governance and conduct laggards. We seek to engage with the companies on each list to hear their perspective on their practices before deciding whether to exclude. When a company has been excluded, it will be eligible for re-inclusion in the portfolio if it is willing to begin a dialogue, or it can demonstrate an improved approach to managing the ESG controversies which triggered its exclusion.

Railpen is a lead participant in a range of investor networks such as the UK Investor Forum. By working with other leading investors, including bondholders, we can exert more influence on the issues that we care about, subject to any applicable laws and regulations in the relevant jurisdictions.

Climate and multiple governance themes are part of both voting and engagement in listed equities. They will also be raised with companies held in other asset classes, in a proportionate way. It is in

our interest to enhance a private company's ESG practices given as a long-term owner we may hold it post-flotation in our Public Markets portfolio.

Examples of current collective engagements include:

- Participation in governance coalitions related to (1) gender diversity in the UK and US (2) problematic remuneration practices
- Dialogues related to social topics such as (1) human capital management, including via the Workforce Disclosure initiative (WDI), (2) responsible tax and (3) cyber risk.
- On climate, we lead the European construction materials sector for Climate Action 100+ ([CA100+](#))

External manager appointment and monitoring

The Trustee expects Railpen and external fund managers to take into account environmental, social and governance (ESG) considerations in selecting, retaining and realising investments, where these factors are likely to have a material impact on the performance of the portfolios either now or in the future. The Trustee takes into account the fund managers' policies in relation to these factors when making new fund manager appointments.

We monitor the ESG practices of a selection of our external managers each year, on a rolling sample basis. The managers are assessed as to how ESG is integrated into the investment process, on their active ownership activities and their approach to climate. Following the assessment, the manager is rated as either emerging, established or sophisticated. We look to engage alongside the top-rated managers as part of our oversight.

Policy Engagement

We undertake engagement with policymakers to drive market norms in a positive direction on environmental, social and governance topics. This may be through involvement in associations such as the Pension and Lifetime Savings Association ([PLSA](#)), the Asian Corporate Governance Association ([ACGA](#)), the Council of Institutional Investors ([CII](#)), the International Corporate Governance Network ([ICGN](#)) or by engaging directly.

We respond to official consultations, and provide practitioner input to official surveys of market practice. Railpen was also a member of the GC100 Investor Group which published the updated UK Directors' Remuneration Reporting Guidance. Railpen participates both in formal consultations and private dialogues with policymakers.

We have co-authored discussion papers to shape market practice. We are a supporter of the Just Transition, and have committed to take account of the social dimension of the transition to a low carbon economy. We are also supporters of the following initiatives: Principles for Responsible Investment ([PRI](#)), Transition Pathway Initiative ([TPI](#)) and [CDP](#) (formerly Carbon Disclosure Project). We are also a supporter of [UKSIF](#), the UK Sustainable Investment and Finance Association, and the Task Force on Climate-related Financial Disclosures ([TCFD](#).) Our climate policy initiatives are informed by our membership of the Institutional Investors Group on Climate Change ([IIGCC](#)) and Climate Action 100+ ([CA100+](#)).

Railpen continues to support the Global Investor [Statement](#) to Governments on Climate Change, which called on world governments to achieve the Paris Agreement's goals, accelerate private sector investment into the low carbon transition and commit to improve climate-related financial reporting.