

Report on the Socially Responsible Investment Programme

This paper reports the annual findings and actions of the Socially Responsible Investment (SRI) programme (Paper Ref: 00/5/12 and appendices). This was agreed in response to the requirement from July 2000 for Trustees to state in the Statement of Investment Principles the extent to which social, environmental and ethical considerations are taken into account in forming investment strategy.

In outline, the programme incorporates SRI into the investment and valuation process by monitoring relevant information and entering into dialogue where the Fund Managers believe a change in company policy will enhance long term returns for the Funds. This is consistent with the overriding objective not to make or retain any investment likely to diminish the financial return on the Schemes' investment as a whole. As with the experience in corporate governance, developing trends are as important as any single issue. SRI findings are not analysed in isolation but evaluated with other factors to form a complete picture of the potential risks and returns of a particular investment. This framework allows BAPIML, on behalf of the Management Trustees, to raise SRI issues with investee companies.

Fund Managers have continued the policy of monitoring company statements in both the report & accounts and on websites, as well as evaluating results from the Business in the Community Index (BITC) and FTSE4GOOD indices. The process remains the same as last year; where performance is seen to fall below the peer group level, further review and dialogue is scheduled. All stocks held in the portfolio were included for analysis.

All FTSE All Share companies held by the Funds now have a statement in their report & accounts that adequately describes their approach to SRI.

Participation in the BITC Corporate Responsibility (CR) index fell to 141 companies from 155 in the previous year. Overall results of the BITC index are slightly weaker with an average company total score of 85% against 87% last year. This year, we are seeing more movement than ever in the CR Index 2008 results, 30 companies have moved up a band, and 10 companies have improved by 10 points or more. New entries are up to 19 from 17 last year including British Airways, which was awarded silver status with a total score of 83%.

Platinum Plus is a new band within the BITC CR index; this evaluates the extent to which commercial business strategy is underpinned by thinking around long term sustainability. Organisations invited to participate include companies who achieved Platinum Band in the Corporate Responsibility (CR) Index 2007. Seven companies also achieved Platinum Plus status. The top performing sectors on environmental issues are, as in 2007, utilities and electricity companies, retailers and accountants/consultants. Significantly, the banking sector has joined this list, demonstrating their commitment to environmental issues in the current economic climate.

The four key risks and opportunities highlighted in the CR index were: climate change, people (*in the workplace and community*), supply chain vulnerability and

leadership & governance. The CR index shows that businesses are continuing to work with their suppliers on environmental issues, scoring an average of 73% in those sections, this however, is a slight decline on the 79% achieved in 2007. In leadership & governance 60% of participants could name a board member for each aspect of CR, up from only 46% in 2004. However, 18 companies named only one person with responsibility across all the issues. Companies cited their biggest environmental issue as climate change (62% reporting it as the key issue). Many identified climate change as a risk with reference to cost savings and potential business opportunities. Companies are finding the sourcing of renewable energy a significant challenge (48% score compared to 55% in 2007). A number of companies share their approach to responsible downsizing and employee engagement through the index. The CR Index and a parallel consultation with 1,500 companies confirm that talent & skills retention and development are emerging as key issues.

The FTSE4GOOD index continues to be considered alongside the BITC CR index. In the period under review only 5 FTSE 350 companies held by the Funds chose not to take part in either index this year. These companies have been contacted in order to encourage their participation in at least one of these indices, or industry equivalent. One responded that they were a sector leader in the Dow Jones Sustainability Index (DJSI) whilst another was the first supermarket to be awarded the Carbon Trust Standard for its management and reduction of carbon in 2008.

Developments at Portfolio Companies

In direct response to contact from BAPIML on the subject, one construction company became a corporate member of BITC in 2007, piloting the 2007 BITC CR index through one of their subsidiaries, subsequently participating fully in the BITC CR index in 2008 and aiming for Bronze status in 2009. In January 2008 they became associate members of the Considerate Constructors Scheme, using third party auditing and reporting as a benchmark throughout the group. Through the scheme they won 21 national awards this year (including 3 gold and 10 silver awards) compared to only 8 awards in 2008 (of which 3 were silver). The company completed the Carbon Disclosure Project questionnaire for 2009 and now has an extensive corporate responsibility section on their website which shows many of their recent initiatives and achievements.

In January 2008, Cadbury launched the Cadbury Cocoa Partnership, through which £44 million is to be invested over ten years in cocoa farms in Ghana, India, Indonesia and the Caribbean. This initiative carried out in partnership with the United Nations Development Programme will invest 70% of the Partnership funds into small farms and farming villages in Ghana. The Partnership will help farmers to increase their yields, producing top quality beans. It also aims to help start new rural business, improve life in cocoa communities by supporting education, the environment, building wells for clean and safe water and develop a way for cocoa farmers to work with Governments, NGOs, local organisations and international agencies.

On 4th March 2009, Cadbury announced plans to achieve Fairtrade certification for Cadbury Dairy Milk by the end of summer 2009, for the UK and Ireland. This move will result in a tripling of sales of cocoa under Fairtrade terms for cocoa farmers in Ghana, both increasing sales for existing certified farming groups, as well as opening up new opportunities for thousands more farmers to benefit from the Fairtrade system.

Porvair is a group of specialist engineering companies in the portfolio. Their products are used in a range of niche filtration markets, and are derived from its expertise in the development and manufacture of porous and microporous ceramics, metals, plastics and carbons. Porvair have announced that its Metals Filtration division, SELEE Corporation, will receive the American Ceramic Society Corporate Environmental Achievement Award for the development of CS-X™, its next generation aluminium cast house filter.

The new filter is a drop-in replacement for the Phosphate Bonded Alumina (PBA) ceramic foam filter which has been the industry standard for the past 30 years. The new filter is formulated without phosphates and without refractory ceramic fibres thus offering greater environmental and safety benefits. In certain conditions PBA filters can react and release highly toxic phosphine gas.

While phosphates have been widely used in aluminium filtration since the 1970s, it was only in 2006 that the phosphine gas risk became known. SELEE reacted quickly, informing its customers of the risks involved, in particular amending health and safety recommendations, and launching a research effort to develop an alternative. The result was the CS-X™ filter introduced in 2008. The environmental and safety benefits of the new filter formulation are outstanding and are achieving improved metal quality, ergonomic benefits, and lower overall costs. In the first 9 months of availability, over 50 customers converted to this new filter, and SELEE expects to see its customer base converted by the end of 2009.

Following on from our 2008 annual report on companies investing in Sudan, **Rolls Royce** has confirmed to the Sudan Divestment Task Force that it has no current operations in or relating to Sudan as of September 2008.

Originator: Head of UK Equities

Date: 1 October 2009

In addition the International equities team have identified some examples of portfolio holdings of particular note with respect to their engagement on SRI related matters. These are described below. Going forward we expect better transparency and increased information to enable the International team to compare individual company policies to best practice. The use of indices such as The Dow Jones Sustainability index may help to assist in this process.

Cia Energetica de Minas Gerais (CEMIG) is an electric energy utilities company managing the largest electric energy distribution network in Latin America. CEMIG who own and operate electricity generation plants, transmission lines, distribution networks and gas across Brazil has a consumer base of almost six million clients.

In December 2008 CEMIG won the auction for the contract for the construction of the Santo Antônio hydroelectric plant contract near Porto Velho in the state of Rondônia. The original plans submitted for a single plant alternative were rejected due to excessive flooding of natural habitat. An installation license was issued which included numerous environmental requirements aiming to protect the environment. Amongst some were; improvement of the fish step system, sanitation investments in Porto Velho and Jaci-Parana, and a smaller flooded area. In response CEMIG introduced an alternative dam location with two lower-fall plants with reservoirs slightly above natural river banks vastly improving the environmental impact. As part of the environmental offsetting for the construction of the power plant contractors for the project will adopt two small conservation units; the Matinguari National Park in Amazonas and the Jaru Biological Reserve in Rondônia. The company continues to actively participate in sustainability surveys and promote best practice in disclosure.

CEMIG are members of the Dow Jones Sustainability Index World (DJSI World) and Global Dow Index (GDOW4), and, for the 4th year running, for inclusion in the Sao Paulo Stock Exchange's ISE Corporate Sustainability Index. CEMIG are signatories to the United Nations Global Compact and have completed the Carbon Disclosure Project questionnaire 2008. More information on the above project can be found at (www.cemig.com.br).

Johnson Controls Inc provides environmentally conscious products for the automotive market which include seating systems, instrument panels, door panels, overhead systems, floor consoles and interior electronics. These products use lightweight, natural, renewable or recyclable materials that reduce the weight and improve fuel economy of cars. Johnson Controls are supplying Ford Fusion and Mercury Milan hybrid sedans with their *SmartGauge with EcoGuide* product which provides real-time information to help coach drivers to achieve maximum fuel efficiency.

The Company earned the Clean Excellence Award from the US Environmental Protection Agency (EPA) for the implementation of its PowerFrame™ grid technology which improves the quality and performance of automotive batteries and reduces emissions, and were involved in the set up of a closed-loop lead acid battery recycling process in the USA which resulted in the recycling of 97% of lead acid batteries with 99% of the material being re-used. Best practices have

been implemented in China and Mexico. In September 2008 Johnson Controls launched EcoSteps in partnership with the World Wildlife Fund (WWF), a lead acid battery recycling initiative to help increase recycling of lead acid automotive batteries in Europe. Part of the proceeds from EcoSteps is funding WWF's Global 200 project, which aims to provide environmental protection to the world's unique eco-regions.

Their building efficiency business recently unveiled a proprietary renewable roofing system that will be used in several projects in the USA. The Building Integrated Photovoltaic (BIPV) roofing system uses a hard wearing, low-maintenance, waterproof membrane that incorporates lightweight, thin-film photographic cells. This technology uses clean, renewable energy to generate electricity while helping lower overall energy costs. Johnson Controls use a variety of award winning software products and services to assess and provide solutions for energy efficient and sustainable non residential buildings. The company is listed on the Dow Jones Sustainability North America and World Indexes, FTSE4Good US Index, and are recognised globally for its environmental achievements and awards.

Originator: Chief Executive, BAPIML
Corporate Governance and SRI Specialist
Date: 1 October 2009