

## **BAPIML Statement of Application of the Stewardship Code**

Following the recommendations in the Walker Review in December 2009, and subsequent new Financial Reporting Council's UK Combined Code, the FRC began a consultation on the content of the Stewardship Code. The final version of the Stewardship Code was published in July 2010.

The aim of the Stewardship Code is to improve engagement between institutional investors and companies, enhancing the long term returns to shareholders. The Stewardship Code principles are taken from the pre-existing Institutional Shareholders Committee Code which we follow, with a small number of amendments. The Stewardship Code provides a "comply or explain" code for institutional investors. The NAPF have endorsed the Stewardship Code and encouraged its widespread adoption.

Those institutions wishing to apply the Stewardship Code should inform the FRC of their intention to do so, have a statement on their website including a description of how the principles of the Code have been applied, disclosure of specific information listed under principles 1, 5, 6 and 7, and an explanation if elements of the Code have not been adhered to. The Trustee board approved the adoption of the Stewardship Code on the 29<sup>th</sup> September 2010.

The following describes how BAPIML fulfil Trustee requirements to comply with the Stewardship Code.

### **Principle 1**

**Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

BAPIML fulfil Trustee requirements on Corporate Governance (CG) and Socially Responsible Investment (SRI) by monitoring investee companies through the Institutional Shareholder Service (ISS) research service which incorporate the views of the National Association of Pension Funds guidelines alongside global market practices, the Financial Reporting Council's (FRC) UK Corporate Governance Code and Stewardship Code. Where BAPIML follow an alternative form of action from the suggested guidelines, abstain or vote against an investee company it is recorded in the voting report, which accompanies each investment committee meeting. A dedicated responsible investment analyst supports the internal Fund Managers in their monitoring and integration of stewardship requirements into their active investment process. The approach is incorporated across all asset classes.

### **Principle 2**

**Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Along with all FSA regulated firms BAPIML has clear policies which address the identification, management and disclosure of conflicts of interest covering: close relationships, inducements and behaviour which might be considered to give rise to an allegation of market abuse.

### **Principle 3**

#### **Institutional investors should monitor their investee companies.**

The Management Trustees consider all aspects of corporate governance are adhered to through use of the NAPF policy guidelines and the ISS voting recommendations and research provider. Through the Scheme's Custodian Trustee, British Airways Pension Trustees Limited (BAPTL), the Trustees receive vote activity reports from BAPIML followed by an annual report on the corporate governance and SRI programmes. If BAPIML follow an alternative form of action from the suggested guidelines a clear explanation is given. Where there is an issue with an investee company BAPIML enter into dialogue whenever practical with the company before making an informed decision. Communication with companies, on corporate governance and SRI issues are recorded for UK investee companies and are available internally. BAPIML ensure that they are not made insiders by investee companies without BAPIML's prior agreement.

### **Principle 4**

#### **Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

When BAPIML engage on issues with an investee company they will generally speak with the company secretary or investor relations via telephone or e-mail, and if not satisfied a meeting with senior management is requested. If a satisfactory answer is not forthcoming then dialogue with the chairperson or the appropriate member of the board may be necessary. In extreme circumstances, if the issue with the company is not resolved, and is deemed detrimental to the Fund a decision to divest from the company may be taken.

### **Principle 5**

#### **Institutional investors should be willing to act collectively with other investors where appropriate.**

Collaboration with likeminded institutions has proved valuable in securing meetings with investee companies. All parties attending combined investor and company meetings sign terms of reference which contain notes on objectives, a memorandum of understanding, conflicts of interests and insider information. BAPIML attend case committee meetings held by the NAPF where relevant.

### **Principle 6**

#### **Institutional investors should have a clear policy on voting and disclosure of voting activity.**

The Trustees have a clear policy on voting within the Statement of Investment Principles which is reviewed annually. When BAPIML vote contrary to management or against guidelines, a comment is placed on the report and wherever practical communication takes place with UK investee companies, either before or after the event is recorded on file. The Trustees disclose their policy and BAPIML voting activity on the member website.

## **Principle 7**

**Institutional investors should report periodically on their stewardship and voting activities.**

BAPIML regularly produce a report containing votes for, against and abstained for all holdings on a global basis to the Trustees and report back annually on all other aspects of CG and SRI. An independent internal audit is carried out on CG activities within BAPIML.