

Annual Report on the Corporate Governance and SRI Programmes

1 April 2017 - 31 March 2018

Executive Summary

Background

This report discusses the activities carried out by BAPIML to fulfil its stewardship responsibilities and Trustee requirements on Corporate Governance (CG) and Socially Responsible Investment (SRI). BAPIML monitors policy changes and themes emerging over the year and suggests potential next steps to improve the programme. Corporate Governance vote activity reports accompany each Investment Committee (IC) meeting, providing stock by stock and issue by issue voting records. The individual annual reports on UK CG, International CG and SRI provide more details on specific engagement/company issues.

Purpose of Report

The purpose of this report is to:

- Report on the progress of the Corporate Governance and SRI programmes;
- Update the Trustees on the implementation of the Annual Corporate Governance and SRI Programmes;
- Highlight developments in best practice, new initiatives and participation in external forums; and,
- Demonstrate a greater focus on the importance of sustainability in the Private Equity, Alternatives and asset classes.

The detailed BAPIML Reports are provided in the appendices for noting. These form the basis of reporting to members and engaging with external parties when received.

Outlook

- **UK CG** – Continued focus on remuneration, director independence and “overboarding”, also on reviews of succession plans and diversity policies with an increased emphasis on promoting gender, ethnic board diversity and gender pay gap comments by companies under the proposed new UK Corporate Governance Code.
- **International CG** – We anticipate an increase in shareholder proposals pertaining to environmental, social and climate change requests. Focus on equity-based compensation plans in Japan, regulatory changes in the Emerging markets, increased transparency and further ‘comply or explain’ measures in Latin America.

- **SRI** – We expect greater focus in Europe on mandatory environmental, social and governance (ESG) reporting and, in the global arena, voluntary reporting in line with the framework of the Taskforce on Climate-related Financial Disclosures (TCFD) and corporate adoption of the United Nations Sustainable Development Goals (SDGs).

Recommendations for 2018/19

- BAPIML to review the Financial Reporting Council’s revised Stewardship Code and statement of compliance.
 - Continue to develop the ESG tool to achieve maximum engagement at Fund Manager level.
 - Develop and implement a corporate engagement log to capture and record all forms of company engagement.
- Following the creation of the new ESGC Sub-Committee, action any ESG Sub-Committee decisions on ESG Policy.

Action: For noting/decision

1 Overview

1.1 UK Equities

The UK equity market saw some improvement in remuneration arrangements in the 2017/18 fiscal year, particularly for FTSE 100 companies. There was also a modest new trend in companies withdrawing new remuneration resolutions over concerns about shareholder rebellions. On the other hand, director re-election dissent increased across the market. The number of occasions where the Schemes voted against at least one proposal at investee companies’ Annual General Meetings (AGMs) fell marginally year on year, reflecting this backdrop as well as BAPIML’s continued focus on the highest standards of corporate governance. Remuneration and the re-election of directors remain the most common areas of concern. BAPIML’s UK Equity Team engages with investee companies when they fall short of best practice in all areas of corporate governance.

1.2 International Equities

BAPIML’s International Equity Team voted at 712 shareholder meetings. The percentage of meetings voted contrary to management increased slightly year on year to 48% from 46%. Asia and Europe received the largest percentage of votes against management, whilst Emerging Markets, Japan and North America registered a reduction in votes against management. The key governance concerns were board independence and remuneration related proposals. Environmental and social issues continue to gain more attention, especially in North America.

1.3 Report on the Socially Responsible Investment Programme

There has been a slight decline in the number of environmental, social and ethical proposals voted at shareholder meetings globally. However, the number of environmental proposals submitted to the agenda of US and Asian investee companies has continued to rise. Environmental issues (including climate change), diversity and human rights policies were prevalent concerns for shareholders.

2 Developments in Corporate Governance

The Financial Reporting Council's (FRC) 'Annual Review of Developments in Corporate Governance and Stewardship for 2017'¹ was published in the public consultation on proposed revisions to the UK Corporate Governance Code in December 2017. The revised Code², which will come into effect in January 2019, will be designed to set higher standards of corporate governance, to promote transparency and integrity in businesses and to attract long term investment in the UK.

In 2016 the FRC conducted a tiering exercise of signatories to the UK Stewardship Code to distinguish those that reported well and demonstrated a commitment to stewardship and those where improvements were necessary. This was the initial phase of the FRC's plan. The FRC is now focusing on how they can encourage further improvements in reporting and best practice in stewardship. A consultation on the direction of travel for reform of the Stewardship Code will be published in mid-2018 once a comprehensive review of the UK Corporate Governance Code has been finalised. BAPIML achieved a Tier 1 ranking, providing a good quality and transparent description of the approach to stewardship and explanations of an alternative approach where necessary.

The Hampton - Alexander 2017³ FTSE Women Leaders review (the Review) aims to improve gender balance on FTSE 350 boards and improve the representation of women in leadership positions of FTSE companies. Progress has been made with 27.7% of FTSE 100 companies having female representation on the board in 2017, up from 26.6% in the previous year. As of 2017 over a third of FTSE 350 companies have now achieved the target of 33% of women on boards. There were only 10 all-male FTSE 350 boards as of November 2017.

Leadership teams are comprised of members of the executive committee or directly reporting to the executive committee members. In 2017 the Review recommendations extended the voluntary target of 33% of women on FTSE 100 leadership teams to include the FTSE 250 by 2020.

The EU Shareholders' Rights Directive (SRD) entered into force in 2007. The original directive and its revision (SRD II) form part of the European Commission's (EC) Corporate Governance Action Plan 2012. The Directive 2017/282 on Long Term Shareholder Engagement, the new denomination of the Shareholders' Rights Directive, was published on 17 May 2017.

¹ <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/developments-in-corporate-governance-and-stewardsh>

² <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658126/Hampton_Alexander_Review_report_FINAL_8.11.17.pdf

The aim of the SRD II is to stimulate shareholders' long-term engagement, increase transparency in the voting process, both in relation to proxy voting and shareholder identification and improve issuer-investor dialogue. Issuers have the right to obtain shareholder identification with the objective of engaging directly with the investor. The approval of the remuneration policy and voting on remuneration must be included in the AGM of shareholders. Some transactions, including intragroup transactions between a company and its affiliates or between two affiliates of the same holding company, must be approved at the AGM. Under SRD, II institutional investors (such as asset managers, pension funds or insurance companies) must establish an investment strategy and publish associated reports in a timely fashion. Proxy advisors should establish accurate and reliable voting recommendations. Proxy advisors will have to publish a report on their compliance with the code of conduct of proxy advisors

The EU Directive on disclosure of non-financial information and diversity information (2014/95/EU) was published at the end of 2014. The European Member States were given two years to transpose the EU Directive into national legislation. The key provision of the Directive is contained in Article 1 (inserted as Article 19a of the Accounting Directive), which requires that large undertakings are to "include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters". The information must include a brief description of the company's business model, a description of the policies pursued by the company in relation to the non-financial matters, the outcome of these policies, a description of the principal risks relating to non-financial matters and how the company manages those risks. If the company does not pursue policies in relation to one or more of the non-financial matters, it must give a clear and reasoned explanation for not doing so.

The Italian Corporate Governance Committee has released a new edition of the Italian Corporate Governance Code adding a recommendation that at least one-third of directors be of the underrepresented gender. While Italy currently has a legally mandated board gender quota in place, the relevant legislation includes a sunset clause⁴ that takes effect in 2022. Meanwhile, the Norwegian Corporate Governance Board has revised its corporate governance code to more concretely address the board's responsibility for risk management and the firm's capital structure, as well as a recommendation against the issuance of options to board members.

The Johannesburg Securities Exchange (JSE) has amended its listing rules to make the King IV corporate governance code mandatory for companies. Under the rules, listed firms will have to include a board racial diversity policy, separate the chairman and CEO positions and appoint a social and ethics committee in accordance with the code. The code will be overseen by the Institute of Directors in Southern Africa (IoDSA). Under the code, a company's remuneration policy must record the measures the board commits to take if the remuneration policy or the implementation report, or

⁴ In public policy, a **sunset** provision or **clause** is a measure within a statute, regulation or other law that provides that the law shall cease to have effect after a specific date, unless further legislative action is taken to extend the law.

both were voted against by 25% of shareholders. For this scenario, the company would be required to invite dissenting shareholders to engage with the company.

3 Surveys, participation and engagement

BAPIML participates in surveys and consultations where practical, as they provide an insight into upcoming trends, policy and regulatory changes. This allows BAPIML to focus on areas for potential improvement. BAPIML responded to four surveys in the year under review: two ESG policy surveys for Institutional Shareholder Services (ISS) and two surveys for BAPIML’s proxy facilitation service, on operational performance.

The findings from the 2016 “Stewardship in Practice”⁵ stewardship survey was published in September 2017 by the Pensions and Lifetime Savings Association and the Investment Association (PLSA) working in conjunction with the FRC and the Institute of Chartered Secretaries and Administrators (ICSA). The report looked at how stewardship responsibilities are discharged by asset managers, asset owners and service providers with respect to UK companies.

BAPIML continues to engage with investee companies where practical, over contentious proposals at AGMs, or in response to Trustee or Scheme Member enquiries. Where a vote against a proposal is warranted, an explanation of our stance is communicated to the investee company. This can be by letter, email, telephone call to the company, verbally during a meeting with management or through the company broker. A letter explaining the Fund Manager’s decision was sent to 27 investee companies in the year under review. BAPIML received eight responses from investee companies. Remuneration policies and incentive plans were the predominant focus of engagement followed by the independence of directors and over boarding. We use our judgement on whether it is appropriate to publish engagement in advance of meetings, as some issues may be sensitive.

BAPIML is open to collaborative initiatives with organisations and likeminded institutions. Representatives of BAPIML periodically attend corporate governance roundtable events, where collaborative opportunities (including workshops and consultations) are discussed and acted upon, where appropriate for the Schemes. The CG & SRI Specialist is a member of the PLSA Stewardship Advisory Group and BAPIML continues to receive research and engagement initiatives on specific ESG topics from analysts. In the year under review, BAPIML became members of the International Corporate Governance Network (ICGN) which will further enhance the opportunity to collaborate and gain knowledge of ESG policy and upcoming trends. BAPIML’s external proxy research provider, Institutional Shareholder Services (ISS), engages with companies during the proxy voting research development process and BAPIML maintains the use of specialist news feeds, external ESG tools and research services from providers in the public domain.

⁵ https://www.theinvestmentassociation.org/assets/.../Stewardship_report_FINAL_1.pdf

4 The next steps – improvements to the programme

In addition to participating in surveys, BAPIML is constantly looking for ways to improve:

1. BAPIML maintains its level of reporting to Trustees by providing links to relevant reports of organisations, responding to Trustee enquiries on ESG issues, through Trustee Training, disclosure of voting activity and key developments in the investment update, which accompany every investment Committee (IC) meeting.
2. BAPIML adheres to the Stewardship Code in line with Trustee requirements and is currently ranked in Tier 1. BAPIML reviewed the Statement of Compliance with the Stewardship Code in the year under review and has made no material changes. The statement will be reviewed annually and can be found on the FRC and the Schemes' member website.
3. BAPIML reviews membership to organisations that complement the CG & SRI Programme and will make recommendations to the newly formed ESG Committee for its consideration. In the year under review, BAPIML joined the International Corporate Governance Network.
4. BAPIML continues to monitor the dedicated ESG members' enquiries email folder. BAPIML will report any activity in the annual review under the Report on the Socially Responsible Investment Programme.
5. BAPIML monitors the stock lending programme between the Custodian, BAPSL and BAPIML to ensure the smooth operation of the voting programme and settlement of trades. BAPIML experienced difficulties with the timely auto-recall of stock at Custodian level in February of this year. The Custodian identified issues with source data feeds provided by their internal proxy voting team which resulted in three failures to initiate an automatic recall at the appropriate point before the voting deadline. It was further identified that the upload of data from the Custodian portal to the existing proxy voting database used by the reporting team omitted key data which led to an additional failure. In all four instances the outstanding positions were returned prior to the voting deadline for each meeting. The Custodian introduced a new process to provide a cleaner transfer of data and a cross-check exercise to manage the process more efficiently.
6. The ESG portfolio monitoring tool, designed to assist the Fund Managers' consideration of key ESG risks in the investment decision-making process, has been further enhanced during the year. The ESG tool provides Fund Managers with a snapshot of their companies' ESG disclosure relative to its peers during the AGM season and highlights opportunities for engagement on ESG disclosure with investee companies.

7. The ESG team is in the process of developing a new corporate engagement log. The objective of the project will be to capture and accurately record all corporate engagement and to identify areas where Fund Managers have specifically raised issues regarding ESG (including climate change).

Corporate Governance and SRI Specialist
14 September 2018

Private Equity and Alternatives

1 April 2017 - 31 March 2018

Private Equity

In December 2017 the Private Equity Reporting Group (the Group) issued its 10th annual report on monitoring conformity by private equity firms and portfolio companies with the 'Guidelines for Disclosure and Transparency in Private Equity' (the Guidelines). These Guidelines were introduced following an independent review of the adequacy of disclosure and transparency in private equity by Sir David Walker in November 2007. The objective of the Guidelines is to allow stakeholders to understand how private equity-backed portfolio companies operate their strategy, and to substantiate the contribution of private equity to the UK economy in terms of jobs growth and investment. A total of 52 portfolio companies were covered by the Guidelines in 2017 (2016: 60), with the number of private equity firms that are covered decreasing by 15 to 59, reflecting the falling number of portfolio companies in scope this year.

Of the sample reviewed in 2017, 63% achieved a good or excellent/'best in class' level of compliance (2016: 57%). The number of portfolio companies required to comply with the Guidelines decreased by 8 to 52, which was a result of 13 exits and 5 new deals. The Group is committed to working with private equity firms, 'private equity-like' firms and portfolio companies to improve their disclosures and strongly encourages standards above the minimum requirements within the Guidelines, being those observed in the FTSE 350.

For private equity, the major component of due diligence for any manager or fund is completed prior to investing, as once invested the documents do not allow the investor to modify the terms or influence the investment policy of the fund. However, for a number of portfolio investments, BAPIML also serves as an active member of the fund's advisory committee. These committees provide guidance to the underlying managers on important issues such as conflicts of interests and proposed changes to the terms of the funds.

During the year BAPIML also remained an active member of the European Venture Capital Association, the British Venture Capital Association and the Institutional Limited Partners Association (ILPA). ILPA has developed the 'Private Equity Principles' in order to establish benchmark standards in relation to the alignment of interests, governance and transparency for private equity funds. BAPIML has been active in encouraging its underlying managers to observe best practices in their terms and standards of reporting, utilising the ILPA Private Equity Principles as a benchmark.

It has been gratifying to see that several private equity funds have continued to integrate ESG into their approach and reporting during the year. Private equity funds are long term holders of assets and often benefit from being a controlling owner of the companies they

invest in. This makes them well placed to establish and implement industry-leading ESG practices across their portfolios.

Alternative Assets

BAPIML continues to consider ESG issues when making fund commitments, avoiding strategies that are considered unsustainable or unsuitable from an ESG perspective.

As with private equity, the major component of due diligence on any manager or fund is completed prior to investing. Whether the investment is housed in an open-ended or a closed-ended vehicle, once invested the documents allow little flexibility to amend terms or influence the investment policy. Therefore, considerable care is taken prior to investment regarding governance, disclosure and transparency issues. The key elements focused on during the due diligence process include the strongest possible commercial terms, reporting and transparency levels. BAPIML often utilises an external adviser to conduct operational due diligence on potential investments. This adviser conducts a detailed evaluation of the prospective investee fund, covering such areas as governance, compliance, custody, valuation, accounting, IT capabilities, disaster recovery and disclosure. This adviser has also been a pioneer of a new transparency initiative, called Open Protocol, which provides standardised risk reporting for different funds and enables the aggregation of data across portfolios.

BAPIML is a member of the Investor Chapter of the Standards Board for Alternative Investments (SBAI) for hedge fund vehicles. The SBAI is a standard-setting body for the alternative investment industry, comprised of managers, investors, regulators and consultants. It establishes and monitors around 28 Hedge Fund Standards which are minimum, best practice standards for hedge funds in the areas of governance, disclosure, valuation, operational and portfolio risk management. BAPIML is also a member of the Alternative Investment Managers Association (AIMA) and its Investor Steering Committee. Founded in 1990, AIMA is the global representative of the hedge fund industry. The organisation represents all practitioners in the industry, with a focus on education, regulation, policy development and sound practices. Finally, as outlined in the private equity report, BAPIML is also a member of the Institutional Limited Partners Association, which also covers some funds within the alternative asset portfolios.

Head of Alternative Assets and Private Equity
10 September 2018

Property Corporate Governance Annual Statement 2018

1 April 2017 - 31 March 2018

Maintaining high environmental, social and ethical standards is an increasingly important factor in driving performance. Our agenda is communicated to property level through our managing agents, Savills, who ensure the properties comply with all relevant legislation and that they take a responsible approach to employment of staff at site.

Environmental Standards and Performance

UK environmental legislation is driven by the European Union and the outcome of Brexit is not yet known, hence business as usual continues regarding monitoring and management of environmental performance. Annual environmental audits are performed on each multi-let property within the portfolio to assess the standard of environmental compliance and performance with a focus on waste management and fluorinated greenhouse gas regulations. Pollution control and management planning is also considered.

BAPIML has continued disclosure under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme with identification of any opportunities to reduce carbon emissions. The CRC submission is currently required annually and the final submission for CRC will be on 31 July 2019, after which the scheme is expected to change materially.

The Energy Savings Opportunity Scheme (ESOS) comes into force in 2019. Phase 1 information has been submitted and BAPIML is now in Phase 2 of the ESOS compliance scheme, with next submissions due before 5 December 2019. In tandem with submission of data for assessment purposes, Savills continue to put into place energy saving strategies. Energy Audits are also to be conducted on larger schemes within the portfolio and will be used in conjunction with Planned Preventative Maintenance reports to direct management strategies in order to reduce energy costs long term across the portfolio.

The Minimum Energy Efficiency Standards (MEES) came into effect on 1 April 2018, Savills performed a full portfolio assessment in advance to ensure that all units where a letting may be required in the short term, have an EPC rating between A – E. Savills, our managing agent will continue to manage and monitor as changes occur across the portfolio to ensure that any works required to F, G or non-rated units remain a high priority.

In light of the tragic events that occurred on 14 June 2017 at Grenfell Tower, BAPIML instructed a full fire safety review of all assets within the portfolio, to include a review of the types of cladding used at each asset.

Health & Safety remains a key priority for Savills and additional measures have also been put into place to ensure consistency across the property portfolio. This includes a dedicated National Operation Centre which, in the event of an emergency, co-ordinates the response and communication between all relevant individuals involved with the property. In addition, Savills has reviewed all security procedures on each of the BAPTL's assets and where required recommendations have been submitted and further surveys conducted in order to reduce potential terrorist risks, to include hostile vehicle mitigation strategies. Savills also endeavours to reduce the impact of property use in a responsible and sustainable manner with key focus areas being around waste management, and community enjoyment.

Employment

The National Living Wage became effective from 1 April 2016 and as of April 2018 increased to £7.83 for those aged over 25. Savills, working with their contractors, ensure all contracts for employment on site adhere to the legislation and where possible track above this level to ensure employees feel valued. Where possible Savills requires that contractors used in the course of managing the portfolio must demonstrate that they are pro-active in offering local businesses the opportunity to compete for work and giving local employees the opportunity to apply for jobs, as well as encouraging engagement with their local communities.

Training and skills development is a vital part of the managing agent's role, thus ensuring that the employees based on site at properties within the portfolio have the necessary skills and expertise to perform their role, that the property remains statutorily compliant and the individual has the opportunity to develop. Specific training and career pathways have been developed for each type of role employed at assets within the BAPTL portfolio, which enables employees to have a clear pathway in order to aid career progress. As well as training, we have improved the clarity of Savills' reward and benefits through the use of a new Total Rewards Statement, so that all our employees clearly see their full reward package.

In addition to mandatory competence training, specific training has also been provided to key employees working in high priority security targets. Furthermore, in line with corporate social responsibility initiatives, Savills has partnered with The Samaritans to offer support and guidance to any employees who may experience emotional difficulties either at work or in their personal lives.

Property Fund Manager
11 September 2018