This paper reports the annual findings and actions of the Socially Responsible Investment (SRI) programme. 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. The programme incorporates SRI into the investment and valuation process by monitoring relevant information, and engaging 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’ investments 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 engage with investee companies on SRI issues.

BAPIML evaluate the FTSE 350 UK holdings in conjunction with participation in the Business in the Community (BITC) Corporate Responsibility Index (CR Index), the FTSE4Good, and the Dow Jones Sustainability (DJSI) Indices and disclosure of data through participation in the CDP (formerly known as the Carbon Disclosure Project) annual surveys. Where an investee company falls below the required standards, further review and dialogue is scheduled. There were 28 companies held by the Funds that either did not participate in the above indices or fell beyond the remit of the indices due to the nature of their business. All companies had a statement in their report and accounts that adequately described their approach to SRI. BAPIML monitored one non-compliant company from last year, who now has a satisfactory statement and discloses Scope 1 and 2 greenhouse gas (GHG) emissions.

In accordance with the Companies Act 2006 (Strategic Report and Directors’ Report Regulations 2013) UK listed companies are required to report on greenhouse gas (GHG) emissions for which they are responsible from 1st October 2013, or explain what is omitted in the directors report. Within the UK Portfolio only one investee company is not in compliance with the new GHG requirements and is working towards disclosure.

BAPIML continue to support The Business in the Community (BITC) Corporate Responsibility (CR) Index as it provides companies with a framework to improve and integrate corporate responsibility into their operations. The CR Index focuses on strategy, integration, management, environmental and social impact areas. The 2013 CR Index survey has become more challenging with questions reflecting the difficulty of integrating sustainability into the culture of the business. Sustainability is a priority at board and senior management level and BITC would like to see more companies addressing the living wage, particularly in the construction and support services. The performance categories have been revised from Bronze - Platinum Plus bandings to a new five star rating system.

Participation in the 2013 survey for the CR Index 2014 declined from 126 to 104 companies, with 98 companies achieving a single star boundary of 63% or above to qualify; this compares to 107 participants reaching 70% or more to qualify for bronze in the 2013 CR Index. The average score of participating companies has also declined slightly from 90% to 85%. This reflects the prescriptive questions in the CR Index 2013 survey. Companies achieving the Platinum and Platinum Big Tick awards for excellence in corporate governance and long term sustainability were granted the option of retaining their status under the new rating system. Eight investee companies retained their Platinum Big Tick Status in the year under review.

The BITC Responsible Investment Business Check Up benchmarking tool was developed specifically for smaller to medium enterprises (SME’s) in 2012. The tool was designed to encourage a strategic and structured approach to responsible business and is free to BITC members once a year. Participants completed a short survey through a web based portal and receive a practical feedback report which benchmarks participants against their peers. A supply chain analysis service factsheet is also available for those BITC members interested in engaging with suppliers on corporate responsibility. There were 191 (168 in 2013) businesses that completed the web based Check Up tool in 2014.

BAPIML continue to support the global environmental reporting initiatives of the CDP (formerly known as the Carbon Disclosure Project), Investor CDP, CDP Water Disclosure, Carbon Action and CDP Forests Program. Through annual questionnaires companies are assessed and benchmarked for disclosure of data on carbon, climate change, exposure to deforestation risk, supply chain and water risk. The CDP 2014 UK Corporate Environmental Report, “Leadership now: UK companies and the global environmental challenge”, identified reputational factors as a serious risk associated with the procurement or production of forest commodities. Direct water risks, including water scarcity and flooding, were also areas for concern.

Companies reporting to the CDP are scored in the UK Climate Disclosure and Performance Leadership Index. Of the FTSE 350 companies ranked in the index, eight investee companies (including one utilities company) were leaders within their sectors, with an “A” rating and disclosure score of 96 or above. BAPIML are investor signatories to the CDP and are supportive of the “Aiming for A” initiative to encourage UK listed companies within the utilities and extractives industries to improve their score. CDP has published a report that looks at all climate leading companies around the world, “The A List: The CDP Climate Performance Leadership Index 2014”. CDP are also collaborating with the Global Reporting Initiative (GRI) to link climate change questions that CDP will ask companies in 2015, with the GRI Sustainability Reporting Guidelines (G4), in order to bring consistency to the reporting process.

BAPIML continues to monitor the dedicated ESG member enquiries email folder which was established in response to investor action group campaigns. Members are directed to the governance section of the member website and, where appropriate responses are made to individual member enquiries. BAPIML received 23 (18 in 2013/14) environmental and social information requests from 20 members (nine in 2013/14) on our position following five activist initiatives on two climate change issues, the living wage, “Aiming for A” initiative and drilling in the Arctic.

Ten scheme members (seven in 2013/14) joined an on-going activist campaign following concerns about an investee company’s drilling in the Arctic. On behalf of scheme members a letter was sent to make the company aware of the on-going campaign by the shareholder activist group and voiced scheme members concerns. BAPIML did not receive a response from the company therefore further dialogue has been scheduled.

There were two member enquiries on the campaign to encourage companies to adopt the Living Wage again this year. In the UK, 18 investee companies have committed to paying the living wage to employees in 2014/15, an increase from 13 in 2013/14.

A proposal was submitted by the “Aiming for A” coalition by the Local Authority Pension Fund Forum and the largest member of the Church Investors Group, to the Annual meeting of two oil & gas investee companies, in early 2015. There were four scheme member enquiries in relation to the special resolution – strategic resilience for 2035 and beyond.

4 https://www.globalreporting.org/standards/g4/pages/default.aspx
The resolution called for greater transparency in reporting of on-going operational emissions management, resilience to the International Energy Agency’s (IEA’s)\(^5\) scenarios and low-carbon energy research and development. Relevant strategic key performance indicators, executive incentives and further disclosure on public policy positions relating to climate change were requested. Management from both companies recommended support for the proposal, along with a promise to implement and disclose the proposed changes. BAPIML voted to approve the resolution put to both annual meetings. We will continue to monitor the dedicated ESG folder and will report back in the next annual review.

Global Policy Changes

The European Directive on disclosure of non-financial and diversity information by large undertakings and groups entered into force on 6\(^{th}\) December 2014\(^6\). EU member states will have to transfer the directive into national legislation within two years. Companies with over 500 employees will need to disclose information on policies, risks and results with regard to environmental matters, social & employee-related aspects, respect for human rights, anti-corruption & bribery issues, and diversity on the boards of directors. Companies are encouraged to use international or national guidelines such as the United Nations Global Compact, International Organisation for Standardisation ISO 26000 on Social Responsibility.

The Department for Business Innovation & Skills (BIS) launched a consultation on zero-hours contracts in December 2013. In June 2014 The Business Secretary Vince Cable announced that exclusivity clauses will be banned, so that employees on zero-hours contracts would be able to find work with more than one employer. Provisions will be made in the Small Business, Enterprise and Employment Bill and BIS issued a further consultation paper on how to prevent employers circumventing the exclusivity ban in August 2014\(^7\). In response to the “Banning Exclusivity Clauses: Tackling Avoidance” consultation the Government drafted “The Draft Zero Hours Workers (Exclusivity Terms) Regulations 2015”\(^8\) for Parliamentary approval in March 2015.

The National Association of Pension Funds is reviewing corporate workforce issues as part of a new thematic approach to environmental and social issues. The thematic project on human capital will assess how companies can best communicate, and investors more effectively monitor potential human capital risks. The NAPF will publish a discussion paper in summer 2015 and host a series of roundtables in late 2015. Findings from the discussions will be incorporated in to the NAPF Corporate Governance Policy and Voting Guidelines.

Analysis of Global Environmental and Social Proposals

In the period under review BAPIML monitored investee companies’ environmental, social and ethical practice through statements in report and accounts, from company websites and as part of the corporate governance programme. BAPIML utilises independent research from external providers, alongside subscriptions to ESG news feeds and analysis of issues as they arise.

BAPIML log all environmental, social and ethical issues which are subject to a vote at Annual and Extraordinary General Meetings. The Institutional Shareholder Services (ISS) recommendations are used as a guideline, in conjunction with our own research, to assist in decision making on environmental, social or ethical proposals, on a case by case basis.

\(^5\) http://www.worldenergyoutlook.org/weomodel/
\(^6\) http://ec.europa.eu/finance/accounting/non-financial_reporting/index_en.htm
There has been further decline in the number of social and environmental proposals submitted to shareholder meetings from 107 to 89 in the year under review. There were 35 management and 54 shareholder proposals across all regions.

Shareholder proposals in Europe decreased from six to three proposals with an increase to 15 management proposals up from one last year. This was due to a large scale oil & gas company related party transaction with numerous environmental agreements, which required the approval of shareholders. In Emerging Markets, there were 14 proposals all presented by management, a decline from 23 proposals last year. There were 11 management proposals to approve the re-election and remuneration of members of the Social and Ethics Committee, two non-voting management proposals to present/approve a Social and Ethics Committee Report and one management proposal to adopt the report of the Social and Ethics Transformation and Sustainability Committee.

Asia, having recorded only one proposal for the past two years, had an increase of two management and three shareholder proposals. Shareholder proposals submitted to meetings in Japan were considerably lower at 16 shareholder proposals, compared to 41 last year. Proposals at annual meetings in the US were even on last year at 30. In the UK there were six proposals in total, slightly up from the previous year. There were four management proposals, three to approve sustainability/corporate responsibility reports, one to exempt the name of an auditor. Two proposals were put forward by shareholders, one to broaden the remit of the Safety and Environment Committee, and one to elect a director with climate change experience.

<table>
<thead>
<tr>
<th>Environmental/Social Proposals submitted to Annual/Extraordinary Meeting Agenda’s April 2014- March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Proposals</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>32</td>
</tr>
<tr>
<td>19</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>35</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>3</td>
</tr>
</tbody>
</table>

Excluding the large transaction approvals, the most common proposals observed during the monitoring process concerned the preparation of, or improvements to, sustainability/ethical reports, the election or re-election of Social and Ethics Committee members and their remuneration, disclosure on climate change and greenhouse gas emissions, alternative methods of energy production and nuclear activities of energy companies.
Developments at Portfolio Companies

In the UK there were six proposals submitted to the agenda of investee companies. Three management proposals were to receive and approve the corporate responsibility/sustainability reports of an insurance company, an advertising company and a research and consulting service company. The preparation and shareholder approval of these proposals was classed as a positive step forward, therefore BAPIML voted in favour. For the fourth year running BAPIML voted for a management proposal at a pharmaceuticals company to omit the name of the senior statutory auditor. BAPIML again voted against a shareholder request to nominate an outside director with climate change experience to the board of a metal and mining company. At the AGM of a travel and leisure company, a shareholder resolution to broaden the remit of the Safety and Environment Committee to cover corporate responsibility was presented. BAPIML were satisfied with the explanation from the company, and deemed a vote in favour of the proposal would not be in the best interest of the Funds at this time.

A group of shareholders put forward a proposal at the annual meeting of a US diversified chemical company, to prepare a report on herbicide use on genetically modified crops. The company believe that the concerns raised are mitigated through the information on their website, which provides related material on herbicides and herbicide use. The company monitor environmental issues at board level from the company’s Environmental Policy Committee. The company’s disclosure of information, initiatives and procedures pertaining to genetically modified crops and herbicide use is extensive and addresses the concerns raised, therefore BAPIML voted against the resolution, in line with ISS.

In Europe at an integrated oil and gas company, a Workers Council Group put forward a proposal to approve to link remuneration to positive safety indicators. The company already makes provision for health, safety and environmental performance within the base salary of both the chairman and chief executive. This is measured on the fulfilment of the annual objective of Total Recordable Injury Rate (TRIR), an indicator which is commonly used by the industry. Although the reasoning behind the proposal is valid, the case for replacing the TRIR with a suitable market competitive metric has not been defined. Therefore, a vote against the proposal was warranted.

The focus in Japan was again predominantly on anti-nuclear shareholder activist proposals in the energy sector, ten shareholder proposals were presented at two investee companies’ annual meetings. A proposal was put forward by a group of shareholders, to amend articles, to refrain from disrespecting shareholders and providing loans to anti-social groups at a Japanese bank. Anti-social transactions by the banks subsidiaries worth over $1.9 million filtered through to members of organised crime groups. The scandal, which was known by some senior executives at the bank for over two years, led the Japanese regulator, the Financial Services Agency, to take additional steps to punish the company. The bank was ordered to suspend loans through affiliates for a month and to tighten internal controls. The Chairman of the bank stood down from the board at the end of March 2014 and the President took a self-imposed pay cut for a year.

Prior to the shareholder proposal the company had instigated procedures to strengthen its systems, training and internal controls, and adopted a US type board structure to increase board accountability and transparency. As the company had made considerable improvements the proposal would have made no substantial difference, therefore a vote in favour of this proposal was not warranted.

BAPIML implements policies and reports directly to Trustees with updates being provided to members on the website throughout the year. This information can be found on: www.mybapension.com.

Date: 26th August 2015