Report on the Corporate Governance and SRI Programmes
1st April 2011 to 31st March 2012

Overview

This report discusses the activities carried out by BAPIML to fulfil the Trustees' 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 reports accompany each Investment Committee (IC) meeting providing stock by stock and issue by issue voting records. The individual annual reports on UK and International CG and SRI provide more details on specific engagement/company issues.

In the UK the main areas of concern for the Funds continue to be excessive remuneration packages and re-election of directors. Since the onset of the credit crisis, there remains political pressure in an attempt to restrain excessive boardroom pay and its perceived reward for failure.

For International Corporate Governance focus continued on remuneration and board accountability. In North America advisory votes on the timing for disclosure of directors' remuneration outweighed the "say on pay" issues. There is still a clear divide between remuneration practices in Europe and Eastern Europe. Asia has similar issues but a reduction of share issuance requests in Hong Kong is encouraging. Japan suffered several high profile corporate governance scandals which has led the regulator to bring forward the implementation of basic requirements on board independence. Although disclosure in corporate governance improved in Latin America, companies are still struggling with regulation.

Throughout the reporting year global Annual and Extraordinary General Meetings are examined for shareholder proposals containing environmental, social or ethical issues. In the UK, this is expanded to monitor the Funds FTSE All Share participation in community and ethical indices, and the disclosure of carbon and water data. The findings are reported annually, in the Report on the Socially Responsible Investment Programme.

Developments in Corporate Governance

Proposals to streamline and reform the Financial Reporting Council (FRC) were published in a joint Department for Business, Innovation and Skills (BIS) and FRC report in March 2012. The report confirms that the FRC's seven operating bodies will be replaced by two committees, one focusing on codes and standards (including the UK Corporate Governance Code, auditing, accounting and actuarial standards), the other on conduct (covering supervisory and disciplinary matters, including the work currently undertaken by the Financial Reporting Review Panel).

The Government will also bring forward secondary legislation to reinforce the FRC's independence which will:

- Provide the FRC Board with powers to require the appropriate supervisory body to impose sanctions on an audit firm and/or individual auditor in respect of poor quality work (currently the FRC can only request action by the supervisory bodies).
- Provide the FRC board with powers to make its own rules for disciplinary arrangements in relation to accountants, without needing to obtain the agreement of the accountancy professional bodies.
- Enable the FRC to conclude disciplinary cases without a public hearing where all involved agree.

Subject to the passing of the secondary legislation the changes will come in to force on the 2nd July this year.

The Financial Reporting Council (FRC) has published draft revisions on the UK Corporate Governance Code, the UK Stewardship Code and revised Guidance on Audit Committees[1]. Proposed changes to the UK Corporate Governance Code would require FTSE350 companies to put an external audit contract out to tender at least every ten years; additionally, audit committees

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[1] http://www.frc.org.uk/press/pub2764.html

would be required to report in greater detail and boards would be obliged to provide a "fair and balanced" view. The revisions would also provide companies with more guidance on the explanations required when a company chooses not to follow the code. Boards would be required to report on gender diversity policies in line with Lord Davies' recommendation to the Chairmen of FTSE 350 companies to set out the percentage of women they aim to have on their boards in 2013, and to have a minimum of 25% female representation on the board by 2015.

The Cranfield School of Management's "Women on Boards"[2] annual analysis of FTSE 100 companies reported that the number of female held directorships has risen to 15.6% from 12.5% in 2011, with 47 female appointments made since the last publication. "The Female FTSE Board Report 2012, Milestone or Millstone?"[3], showed 20 female executive directorships and 143 female non-executive directorships in the FTSE 100. Just 11 all male boards remain in the FTSE 100, down from 21 in 2011.

In September 2010 the Trustee board approved adoption and adherence to the Stewardship Code. BAPSL wrote to the FRC to register commitment to the Code and provided links to the Statement of Compliance, currently on the member website. The FRC have proposed changes in their draft revised UK Stewardship Code to include greater clarity on the definition of the term "Stewardship", the roles of asset owners and asset managers and policy disclosure on stock lending. Once the Stewardship Code is finalised any amendments to the Statement of Compliance put forward for approval to the Trustee board, will be notified to the FRC.

The FRC has also published a draft revised Guidance for Audit Committees which supports changes to the UK Corporate Governance Code and Effective Company Stewardship proposals. Subject to consultation, revisions will apply to reporting periods beginning on or after 1st October 2012.

The National Association of Pension Funds (NAPF) guidelines[4] were updated in November 2011 to encompass the new UK Corporate Governance Code. Emphasis was placed on enhancing disclosure and transparency of remuneration, evaluation of board effectiveness (including gender diversity) and disclosure of member skills, experience and other board appointments that might affect the ability of director contribution to the board.

Engagement with investee companies, proxy solicitation organisations, corporate/financial communications firms and Trustee questions on proposals in advance of investee company meetings has remained constant. We strive to implement best practice in corporate governance; furthermore engagement on Environmental, Social and Governance (ESG) is considered to be a fundamental part of managing contentious issues with investee companies. We use our judgement on whether it is appropriate to publish engagement in advance of meetings as some issues are sensitive.

Following consultation on the Government proposals to reform financial regulation in the UK a draft Financial Services Bill was introduced into Parliament for pre-legislative analysis in January 2012. It is proposed to disband the Financial Services Authority (FSA) and establish a new system of more specialised and focused financial services regulators. Subject to approval, the new regulatory structure is expected to be in place by the end of 2012.

The Independent Commission on Banking (ICB) established to look at the structure of banking in the UK and consider how to promote financial stability and competition in the industry, released its final report to the government on 12 September 2011[5]. In the Report, the Commission sets out its recommendations on financial stability and calls for both structural reform and enhanced loss-absorbing capacity for UK banks. The recommendations on competition set out reforms for structural change in UK banking markets, for improving account switching and consumer choice and for pro-competitive regulation of financial services. On 19 December 2011 the Government published its response to the report by the ICB. The Government agreed with the ICB and will implement the advice in stages with the full package of reforms completed by 2019, meaning that

[2] http://www.bis.gov.uk/news/topstories/2012/Mar/women-on-boards-one-year-on
[3] http://www.som.cranfield.ac.uk/som/p3012/Research/Research-Centres/Cranfield-International-Centre-for-Women-Leaders/Reports
[4] http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0201_Corporate_Governance_Policy_Voting_Guidelines_Nov_2011_COMPLETE.aspx
[5] http://bankingcommission.independent.gov.uk/

all necessary legislation will be put in place by the end of this Parliament. The Government is due to publish a White Paper setting out further detail on how the recommendations will be implemented.

On 29 February 2012 Professor John Kay published the Interim Report of his independent review "The Kay review of UK Equity Markets and Long Term Decision Making"[6] to examine investment in UK equity markets and its impact on the long-term performance and governance of UK quoted companies. The Interim Report summarises responses to the review's call for evidence and presents a broad discussion of policy issues such as the governance of companies, the ways in which economic activities are measured, the functioning of markets and the structure of the savings market. There are no recommendations at this stage but Professor Kay will send a final report including recommendations for action to the Secretary of State for Business in the summer.

BAPIML has collaborated with a number of institutions to lobby FTSE on increasing the 15% free float threshold requirement on entry to the FTSE UK index series to 50%, and on increasing governance standards in order to protect minority shareholders. Following public consultation FTSE announced that it will move to a 25% free float requirement and actual free float rounded up to the next 1% in January 2012. Existing companies in these indices which fall under this level will have two years' grace to remain in the indices. FTSE will instigate another consultation process on whether a higher threshold would be appropriate and whether additional governance standards should be incorporated in the indices.

The European Commission held a public consultation to address key issues on corporate governance in listed companies in April 2011. The Green Paper[7] addressed a series of topics including board of directors, role of shareholders and the 'comply-or-explain' approach. The objective of the Green Paper was to have a broad debate on the issues raised. It allowed all interested parties to see which areas the Commission has identified as relevant in the field of corporate governance. It was also an opportunity for interested parties to express their views on the questions raised, and to provide any relevant material. The consultation closed on 22 July 2011, any future legislative or non-legislative proposals will be accompanied by an extensive impact assessment to mitigate the administrative burden on companies.

In South Africa the Companies Act 2008 finally came into force supplemented by the Companies Amendments Act in 2011[8]. This Act introduced significant changes to company law in South Africa. The new act requires companies to establish an independent audit committee elected by shareholders at the AGM. There will be suggested parameters for limitations on the independence and experience of directors, legal requirements on the remuneration of directors (specifically fees earned by non executive directors) and the creation of social and ethical committees. The King III report in 2009 and the introduction and requirement of the "comply or explain" corporate governance code of best practice for companies listed on the Johannesburg Stock Exchange (JSE) in 2010, has resulted in a significant number of larger companies applying the King III provisions for the 2011 reporting season. The King committee recommended that a separate code be drafted to set out the King III guidelines and expectations of institutions as responsible investors. The Code for Responsible Investing in South Africa (CRISA)[9] convened in 2011 by the Institute of Directors in South Africa (IoDSA) aims to compliment the King III code to form part of an effective governance framework in South Africa.

The Brazilian securities regulator (CVM) approved modifications to the new Novo Mercado listing requirements in May 2011, which all member companies must incorporate into their bylaws at upcoming shareholder meetings. The new rules consist of three main components, one year to adopt/disclose a trading policy for insiders, one year to adopt/disclose a code of conduct and three years to separate the chairman and CEO functions.

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[6] http://www.bis.gov.uk/policies/business-law/corporate-governance/kay-review
[7] http://ec.europa.eu/internal_market/consultations/2011/corporate-governance-framework_en.htm
[8] http://www.info.gov.za/view/DynamicAction?pageid=607&id=0
[9] http://www.iodsa.co.za/MEDIAROOM/IoDSAPressReleasesPublishedArticles.aspx

Private Equity, Alternative Assets and Property

The Guidelines Monitoring Group (the Group), established in March 2008, monitors conformity with the Guidelines for Disclosure and Transparency in Private Equity (the "Guidelines")[10] following their introduction in November 2007, and makes recommendations to the British Venture Capital Association (the "BVCA") for changes to the Guidelines if required. In December 2011 the Group published its fourth annual report on monitoring conformity by private equity firms[11] and portfolio companies. It is encouraging to see an increase in levels of compliance on previous years. Many of the portfolio companies report to a standard consistent with reporting by FTSE 350 companies, and where new companies fall below standards, support and advice is provided to ensure an appropriate level of disclosure is achieved.

In March 2012 the Group commissioned a guide entitled "Improving Transparency and Disclosure, Good Practice Reporting by Portfolio Companies"[12]. The guide includes detailed requirements and a summary of good practice to assist private equity owned portfolio companies.

BAPIML's Head of Private Equity sits on the committee for The Limited Partners (LP) Advisory Board of the BVCA which works to establish effective communication between the LP and General Partners (GP) communities, and to provide a platform for LP's to engage in the broader issues affecting the private equity industry.

The property team at BAPIML believe that their "buy and improve" type management strategy, as well as the development aspect to the portfolio, is positively aligned with environmental interests in modernising building stock.

Energy Performance Certificates (EPCs) came into force in April 2008 as part of wider European Legislation: The Energy Performance of Buildings Directive (EPBD). EPCs are a measure of a building's theoretical energy efficiency based on its fabric and fixed services, and benchmarked against existing and new build stock. The certificate is required whenever a building is to be sold or let and lasts for a period of 10 years before statutory renewal, although major modifications to the building will inevitably render the EPC obsolete.

The primary purpose of an EPC is to provide a national benchmark to measure the energy efficiency of buildings and the move towards 'nearly-zero carbon', which all new buildings must be by 2019. The Energy Act 2011 announced that by April 2018 there will be minimum energy efficiency requirements for all property lettings, regardless of building age. The EPC shall act as the measurement tool and the government has indicated that the minimum level will be set as an E rated EPC (see Appendix I for more detail). The government also wish to raise awareness of EPC ratings within the market and since April 6 2012 it has been a legal requirement to include the full front page of a property's EPC in all marketing material. When works to existing buildings or new developments is carried out, the property team promotes measures to improve the energy efficiency of buildings provided it is possible to do so in line with the overall investment strategy.

Display Energy Certificates (DECs) measure a building's operational energy efficiency, are annual and based on actual running costs. The requirement is currently limited to public buildings with a floor area greater than 1,000 sq m that are 'frequently visited' by the public. This is being extended to buildings larger than 500 sq m later in 2012 and the industry view is that this will be extended to the commercial sector within the next 2 years. Further information about the schemes can be found at Appendix I Bulletin: EPCs and DECs.

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC-EES) is a mandatory carbon emissions payment scheme, designed to reduce emissions of carbon dioxide and improve energy efficiency. It is part of the strategy to cut greenhouse gas emissions in the UK by the year 2050, by at least 80% compared to the 1990 baseline.

[10] http://www.walker-gmg.co.uk/?section=10774
[11] http://www.walker-gmg.co.uk/?section=11664
[12] http://www.walker-gmg.co.uk/?section=11664

Charges are raised on properties captured under the scheme, retrospectively on an annual basis. Within the portfolio, periods of vacancy and those properties for which electricity is procured on behalf of occupiers are required to be included. The scheme has evolved to operate in a similar manner to an environmental tax, although whether costs can be apportioned to tenants through service charges will depend on the individual leases. Information about the performance in reducing emissions will place the portfolio in a league table alongside all other participants. The first charges are payable by July 31 2012, for those CO2 emissions for the year 2011-12. Meanwhile, the government is conducting another consultation on possible changes to the CRC-EES and plans to either simplify the scheme or abandon it and replace it with another form of environmental tax on energy use. The government will report its decision by Autumn 2012, with any changes coming into force in April 2013. The changes may encompass mandatory company GHG (greenhouse gas) reporting regulations, on which the government postponed its expected decision in April.

For alternative assets the major component of due diligence for 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, so the investor is largely passive in terms of their ability to amend terms, or to change the manager relationship. Considerable care is taken before we invest on governance, disclosure and transparency issues. If we cannot get assurances on key aspects of the fund's terms then a decision is taken not to invest, irrespective of how good the manager is.

The approach the Fund manager uses is quite similar regardless of vehicle structure (i.e. open ended, closed ended or listed). The key elements focussed on during the due diligence process include the strongest possible commercial terms, reporting and transparency levels. These may be commensurate with our timing of entry or our size in the Fund. We also pay particular attention to the governance of the Fund, including independence of the directors or advisory board and their other responsibilities. We review managers' policies on conflicts of interest and its internal implementation. The lock-in of key investment individuals is a preferable feature, with their departure triggering an exit or wind down vote for the investors. Our requirement would be to see alignment of interests in the performance of the Fund. To effect this we try to ensure that a significant part of investment manager's personal wealth is locked up in the Fund, preferably on pari passu terms with investors. Considerable time will be spent on the management and valuation of illiquid assets. We seek involvement, wherever possible, in fund advisory committees. BAPIML requires the unfettered ability to transfer assets between Funds, the majority of which will usually be clarified by a side letter with the manager.

In addition to the above, for hedge funds (which are generally open ended and unlisted) there are two other services that strengthen our investigations. Firstly BAPIML utilises an external adviser to conduct operational due diligence research on managers. This adviser conducts a series of enquiries on hedge fund managers covering such areas as governance, compliance, custody, valuation, accounting, IT capabilities, disaster recovery and disclosure. BAPIML will not employ a manager which does not have an overall Operational Due Diligence rating from this adviser of C and above. Secondly, BAPIML is a (silent) member of the Investor Chapter of the Hedge Fund Standards Board (HFSB) for hedge fund vehicles. The HFSB is a standard setting body for the hedge fund industry comprised of managers, investors, regulators and consultants. It establishes and monitors around 28 Hedge Fund Standards which are minimum, best practise standards for hedge funds in the areas of governance, disclosure, valuation, operational and portfolio risk management. The Investor Chapter facilitates interaction amongst investors and managers to discuss and encourage conformity with the Hedge Fund Standards. An active investor chapter provides a stronger platform to encourage hedge fund managers to voluntarily join the system and comply with the standards. Whilst not all of our existing managers are full members of HFSB it is a topic that we address regularly with them in our fund reviews. We are also members of the Alternative Investment Managers Association where Michelle McGregor Smith sits on the Investor Steering Committee which promotes the needs of investors to Alternative Managers.

Survey Results

We continue to complete surveys as they provide us with a practical benefit allowing us to focus on areas for potential improvements, upcoming trends, regulatory and policy changes. During the Corporate Governance and SRI reporting period 1st April 2011 to 31st March 2012 we completed seven surveys.

The results of the November 2010 Investment Management Association (IMA) questionnaire, "Monitoring Adherence to the FRC's Stewardship Code"[13], which focuses on asset owner response to selected investee company issues in the UK, was released in May 2011. Of the 80 institutions committed to the Stewardship Code, responses were received from 41 asset managers, seven asset owners and two service providers. The survey found institutional investors vote the majority of their shares, with two thirds of institutional investors now publishing their voting records and 43 out of 50 respondents have published a statement on adherence to the Stewardship Code. The second "Monitoring Adherence to the FRC's Stewardship Code" survey by the IMA was completed in November 2011 with the corresponding results being released at the end of May 2012.

In May 2011 we completed the third biennial UK Sustainable Investment and Finance (UKSIF) survey, "Responsible Business: Sustainable Pensions"[14], results were launched in September 2011. This report studies the extent to which corporate pension funds have adopted sustainable investment practices. The pension fund rate of participation increased from 32 responses (13%) in 2009 to 58 (19%) in 2011. UKSIF believe that Funds are responding to the case for responsible ownership and tend to deepen their practices over time.

The survey found a positive trend in the proportion of funds applying their responsible investment (RI) policy to Private Equity, Property and Bonds, with three fifths of funds giving some or great significance to alignment with the plan sponsor's Corporate Responsibility or sustainability policy. Exercising shareholder voting rights was the most common way to implement the RI policy with 75% of funds practicing this approach. The schemes with an active RI policy have improved their communication to fund members on how their RI Policy is implemented from 41%, in 2009 to 59% in 2011. One sixth (16%) disclose their funds annual voting record compared to one tenth (11%) in 2009.

Airways Pension Scheme and New Airways Pension Scheme were awarded a gold ranking in 2011 for implementation and communication of responsible investment practices up from silver in 2009. The European Sustainable Investment Forum (EUROSIF) has completed its first European Corporate Pension Funds and Sustainable Investment Study in October 2011 taking results from the UKSIF pension survey in the UK.

In June we again participated in the Novethic/EIRIS survey[15] which covered 259 European Investors from 11 European countries, of which 28 investors were based in the UK. The first part of the survey featured a comparison between the 2010 and 2011 survey results. UK respondents believe that Environmental, Social and Governance (ESG) integration offers guidelines to evolve their sustainable practices. Respondents favour shareholder engagement or ESG integration in the broad sense (57%), but are not as concerned with ESG selection (11%) or norm-based (11%) or sector based (14%) exclusions. 18% of respondents completing the survey had no approach to ESG integration.

The second part of the survey focused on the management of ESG risks and their impact on investment policies. In the UK 29% of respondents said they would change their risk policy as a result of the Gulf of Mexico disaster in 2010. Following the disaster at the Fukushima power plant in Japan one in six investors reviewed their policy. The revolutions in North Africa and the Middle East in 2011 had little influence, with 77% of all respondents having no opinion and would not change their policy.

[13] http://www.investmentfunds.org.uk/research/stewardship-survey/
[14] http://www.uksif.org/projects/sustainable_pensions
[15] http://www.novethic.com/novethic/annual_event

The TUC annual fund manager voting survey[16] completed in September 2011 was sent out to 42 organisations with 19 full and 3 part responses. The overall response was just over 50% up from last year. It is evident from the survey that transparency on voting disclosure has increased; 13 respondents indicated disclosure of full records compared to nine last year. Remuneration remains the key issue where investors were most likely to engage or oppose management in the survey, with bank remuneration reports gaining more support than remuneration proposals from other companies. Respondents were more supportive over shareholder resolutions in relation to directors pay and new board appointments. Changes in internal policy on stock lending and conflicts of interest were mentioned by respondents as a result of the introduction of the Stewardship Code.

In November 2011 we completed the 7th annual survey of pension funds, "NAPF Engagement Survey: Pension Funds' Engagement with Investee Companies"[17]. The survey published in December 2011 demonstrates the high standard of corporate governance, the increase of advanced policy improvements in the UK, and how seriously pension funds value engagement with investee companies. Respondents were asked to consider a number of questions based on their awareness of obligations to the Stewardship Code, and the likely impact on the management of their investments. Pension Fund's obligations under the Code were well understood by 60% of respondents, 55% of which are already signatories and 33% of funds include the Stewardship Code in their Statement of Investment Principles.

Other components of the NAPF survey showed that pension schemes delegating engagement to an investment manager fell to 60% this year from 79% in 2011, with a further 18% of cases delegated to a third party, an increase of 7% from 2011. The measurement of effective or very effective dialogue between investors and companies has fallen from 66% in 2010 to 54% in 2011, closer to the 50% level stated in the 2009 engagement survey with remuneration being the most common topic of engagement. "Other priorities" was quoted as the major barrier to engagement by 61% of respondents, whilst 47% (2011 - 45%) mentioned "a lack of relevant skills" and "the cost of engagement" at 48% (2011 - 42%) as significant barriers.

We have contributed to two global policy questionnaires for our research provider, Institutional Shareholder Services (ISS), which we hope will aid future policy formulation, and have completed a survey for a proxy solicitation group.

<u>The next steps – improvements to the programme</u>

Engagement undertaken by the Fund Managers has increased as investee companies are more receptive to inclusion in discussion on governance matters, with all class and size of investor. The NAPF provide a service enabling direct contact with company board members, which complements our external research provider ISS, who engage on behalf of members during the proxy voting research development process. BAPIML representatives attend a corporate governance roundtable, where collaborative opportunities are discussed and acted upon, where appropriate to the Fund. Additionally, BAPIML respond to queries raised by Trustees on specific issues or topics. Broker houses continue to increase their participation, providing research and engagement initiatives on specific ESG topics. We maintain the use of specialist news and external research services from providers in the public domain.

The reporting process initiated in 2010 to analyse social and environmental proposals at investee company meetings is progressing. Overall there has been a slight fall in the amount of environmental or social proposals voted on at annual meetings. There has been a significant decline of shareholder proposals in Japan, and an increase in shareholder proposals in the US. There is a continuing fall in the level of activity in the UK and Europe, with little activity elsewhere. BAPIML have documented findings under "Developments at Portfolio Companies" in the Report on the Socially Responsible Investment Programme.

[16] http://www.tuc.org.uk/tucfiles/137/Fund_Manager_Voting_Survey_2011.pdf
[17] http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0203_Pension_funds_engagement_with_investee_companies_2011_NAPF_Engagement_Survey.aspx

In addition to participating in surveys, we are constantly looking for ways to improve:

1. We continue to maintain our level of reporting to Trustees by providing links to relevant reports, organisations, voting activity and major developments; these are communicated in the investment update which accompanies every Investment Committee meeting.

2. The FRC have made recommendations to amend aspects of the Stewardship Code which are under consultation at present. When finalised, BAPIML will undertake a review of the Statement of Compliance with the Stewardship Code and present findings to Trustees for approval, with any amendments to be reported back to the FRC.

3. Become a signatory to the United Nations Principles for Responsible Investment (UNPRI)[18]. The decision to join the UNPRI is an ongoing dilemma. BAPIML has aspired to mirror the principles of the UNPRI but still has concerns with aspects of the principles. Our ethos has, in the past, been a preference to working with the NAPF (who are signatories to the UNPRI) on issues and, if possible, through the confidential case committee system. BAPIML participated in select collaborative initiatives and utilises other opportunities such as governance roundtables and one-on-one meetings with investee companies, which have proved to be the most productive use of resources. In 2013 it will become mandatory to publicly disclose parts of the UNPRI survey. This, combined with the effect of mandatory fees, factors in our continuing reluctance to join at present. We will monitor progress and assess the benefits of joining the UNPRI.

4. Following a high profile public campaign in relation to a shareholder resolution at the AGM of an investee company in 2010, a dedicated ESG email address was established for member enquiries. BAPIML continued to observe the dedicated ESG email folder for activity, responding to information requests from nine members on our voting stance specific to the 2010 shareholder resolution, and to one other member request on an activist initiative for a company not owned by the Fund in 2011. We will monitor the dedicated ESG folder and will report activity of substance the next annual review.

5. In our continued efforts to improve the voting process the stock lending agreement between the Custodian, BAPSL and BAPIML is reviewed regularly. If an issue arises it is reported to the Trustees in the Investment Committee papers. The latest the stock lending update includes new procedures for American Depository Receipts (ADR) and Global Depository Receipts (GDR).

Originator: CG & SRI Specialist, BAPIML
Date: 21st May 2012

[18] http://www.unpri.org/reporting/result.php

Class Actions

The distribution for the Shell Non US purchasers was paid in November 2011 the total amount received across the three funds was $372,930. There was a small retention on this payment of 5% and it is anticipated to be paid after June.

We are investigating class actions in Belgium, Germany, France and the UK in respect of four companies and we aim to report back on outcomes in the next annual report.

IPS continues to collect claims on our behalf and the net amount received for the year from 1st April 2011 through to 31st March 2012 was $416,264.29. We also continue to monitor class action litigation using Bernstein Litowitz Berger & Grossmann, RGRD Law and GE Law.

Originator: Head of Finance, BAPSL
Class Action Specialist
Date: 21st May 2012

Bulletin

Minimum EPC Ratings: Protecting your assets

The Energy Act 2011 contains a number of provisions which will affect the property industry. Probably most significant are the proposed EPC minimum standards requirements.

From April 2018, the proposed legislative changes would make it unlawful to let residential or commercial properties with an EPC Rating of F or G (i.e. the lowest 2 grades of energy efficiency). This could have very significant implications for landlords – and for occupiers who wish to assign or sublet space – including:

- Marketability of some properties would become impossible unless they are upgraded in energy efficiency terms. It is estimated that about 20% of non-domestic properties could be in the F & G ratings bracket. It is important to note that some prime properties will be in this situation – it is not just about secondary or tertiary stock.
- This situation could apply to all lettings and re-lettings, including sub-lettings & assignments.
- Valuations of such properties would be obviously affected if their marketability is diminished.
- Rent reviews for properties in this situation would also be affected.
- Implications for dilapidations assessments would exist.

To address the implications of the proposed changes, landlords and occupiers will need to assess the status of their properties' energy efficiency. Thereafter, they will need to consider undertaking retrofits or refurbishments and possibly bringing forward properties for marketing prior to 2018 or re-gearing leases. Some landlords and occupiers will need to consider how their property values may be affected if they are caught up in the proposed regulations.

What about the proposed government solution?

The Government's expectation is that the "Green Deal" will provide the finances to carry out the improvements. Landlords and subletting occupiers will have satisfied their obligations once they have achieved an EPC "E" rating or have implemented the maximum package of works allowable under the Green Deal (even if they fall short of the "E" rating required). Future secondary legislation will be provided to allow the Secretary of State to exempt certain types of properties from the requirements and consultation will be undertaken beforehand.

Trading Standards teams at local authorities will enforce the rules for commercial properties, the level of fine being subject to secondary legislation.

What can GVA do?

We appreciate that this is largely about risk management. It is important to note that the secondary legislation is yet to be drawn up and there is a chance that there could be delay and change before 2018. However, GVA also knows that the Government is keen to push this through and there is already discussion about ramping it up (e.g. by raising the standard to also include E ratings at a future date). Furthermore, some investors are already assuming that this regulation – or something with the same impact – will come into effect in future.

If the proposed change goes ahead, our clients have 6 years to put plans in place to ensure that their properties are not caught out by this new legislation. As such, we suggest that:

- All rentable property needs to have an EPC Assessment.
- Where the EPC Rating is "F" or "G" now (or is at risk of becoming so) a "Carbon Reduction Plan" is required to improve the energy efficiency of the property. This should include assessing the costs and benefits of improving the energy efficiency and weighing these up against options to market the property and/or to re-gear the lease.
- Energy efficiency improvements should take advantage of void periods or be included as part of the ongoing maintenance and plant renewal programme.
- Energy efficiency improvement works would need to be implemented by April 2018.
- Applicability of Green Deal finance to particular buildings needs to be assessed (the government wants to implement the Green Deal in autumn 2012).

So what can you do next?

In the first instance, GVA suggests that if you let space in your buildings you should contact us so we can help you and your colleagues to identify the potential impact of the proposed legislative changes. GVA is able to provide advice through a "one stop shop" to:

- Advise you on the status of the legislation and its implications for your individual circumstances.
- Manage energy performance risks across portfolios and for individual assets.
- Assess the current energy efficiency of buildings.
- Identify a bespoke plan (a "Carbon Reduction Plan") for your buildings to implement any necessary energy efficiency improvements as part of the building life cycle.
- Negotiate with landlords or occupiers to ensure the works can go ahead, including possible lease re-gearing.
- Procure and manage any necessary improvement works.
- Provide energy performance reports and ratings for statutory compliance and marketing purposes.
- Advise on the appropriate marketing of buildings.

For further information please contact:

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