

## Report on the Socially Responsible Investment Programme

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.

### In the UK

We evaluate our UK FTSE 350 holdings in conjunction with participation in either the Business in the Community (BITC) Corporate Responsibility Index (CR Index) the Dow Jones Sustainability or FTSE4Good Indices. This year, we have also looked at carbon data disclosure through participation in the Carbon Disclosure Project (CDP) annual survey. Where an investee company falls below the required standards, further review and dialogue is scheduled. As was the case last year, all FTSE All Share companies held by the Funds have a statement in their report & accounts that adequately describes their approach to SRI.

The BITC CR Index has been used by BAPIML as we believe it challenges investee companies by providing a tool that focuses on integrating responsible business practice, its impacts on society and in the environment. The BITC published results of its 2009 survey in June 2010 and out of a disappointing 117 participants 111 earned a place in the annual rankings compared to 141 in 2008 and 155 in 2007. There were seven new companies participating in the BITC CR Index, eight companies had an increase in score of more than 10 per cent, 49 companies had an increase in score of between 0.5 and 10 per cent, two companies had a decrease in banding and six companies had little or no change. There were eight investee companies that did not participate in the above indices; these companies fell beyond the remit of the indices due to the nature of their business or did not submit data to the CDP. We are pleased to report that one of our construction companies, whom we encouraged to participate in the BITC CR Index in 2008, has now entered the bronze category of the index with full coverage.

The BITC have made a decision to bring the CR Index 2010 in line with the year of publication rather than the year of survey submission; consequently the BITC CR Index results for 2010 will be called CR Index 2011 and will be published in June 2011.

### Analysis of Global Shareholder Proposals

Fund Managers have continued the policy of monitoring company statements through report & accounts, independent research, on websites and through the corporate governance process. Throughout the reporting year, we examined Annual and Extraordinary General Meetings for shareholder proposals containing environmental, social or ethical issues. The Institutional Shareholder Services (ISS) recommendations are used as a guideline in conjunction with our own research to assist in decision making on shareholder proposals, issues are logged and reported to Trustees on an annual basis.

We have seen a slight increase in environmental and social proposals submitted to shareholder meetings overall. Of the 58 proposals, Japan had the largest increase at 29, concentrated on the utility companies, whilst the US had a decrease in shareholder proposals at 25, due to increased shareholder communication prior to meetings and by the Securities and Exchange Commission (SEC) rejecting a higher proportion of submissions. Thus Japan and US had a similar number of such proposals whereas Europe and UK only recorded two proposals each. The most frequently submitted proposals included: establish a human rights policy, gender diversity, request for sustainability/climate reports, establish an environmental committee, director election with specific environmental experience, animal welfare and proposals relating to phasing out toxicity and introducing renewable energy.

#### Shareholder Proposals submitted to Annual/Extraordinary Meeting Agenda's April 2010- March 2011

| No of Proposals | Action   |
|-----------------|--|
| 50              | Against, in line with Management and ISS                             |
| 8               | For, Against Management, in line with ISS recommendation to vote For |

The eight proposals voted in-line with ISS recommendation but against management, were: amendments to human rights policies, reporting on the effects of a chemical, preparation or improvements to sustainability reports, director election specifically with environmental qualifications, adoption of guidelines for country selection and discrimination based on gender or sexual identity. The Fund Managers voted against the remaining 50 shareholder resolutions in line with management and ISS recommendations.

#### Developments at Portfolio Companies

Last year we observed an increase in lobbying on environmental and ethical issues from shareholder activist groups. In 2010, with the support of major investors an environmental shareholder activist group filed two resolutions asking two of our oil companies to publish data on environmental, social and financial risks arising from their tar sands projects in Canada. This is covered in more detail in the annual Report on UK Corporate Governance.

For one oil company, 2010 was dominated by the events that took place in the Gulf of Mexico. In April, an explosion, which sadly claimed the lives of 11 people, occurred on an oil rig in the Gulf of Mexico. Consequently the company had to deal with an oil spill which caused widespread pollution and disruption to many families. The company set up a \$20bn fund to pay all legitimate claims for compensation as well as further funds for research and restoration. The company also created a tab dedicated to Gulf of Mexico providing news, help and information on the restoration of the environment on their website. The Chief Executive at the time of the disaster, resigned alongside the Head of Exploration and Production following the explosion. Significant changes were made to the board, including the creation of a new, independent safety and operation risk organisation (S&OR). The core responsibilities of the S&OR are to provide an independent view on operational risk as well as assess and enhance the competency and capability of the workforce in matters related to safety and operations, independent of the business line. The S&OR will report directly to the company's senior executive team. The company has filed for damages through the Louisiana courts, from the owner of the oil rig, the contractor and the manufacturer of the blow out preventer.

Following the catastrophic earthquake and subsequent tsunami in the north east of Japan, the reactor cooling systems at the Fukushima Nuclear Plant failed. This led to severe damage and radiation leaks which caused the displacement of residents within a 30km radius and has damaged crops. As the long term liability risks could not be quantified, the Fund Manager

exited its holding in the power company and reduced exposure to utilities within the Japanese portfolio.

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](http://www.mybapension.com).

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