

BAPIML Revised Statement of Application of the Stewardship Code

The Financial Reporting Council (FRC) have amended the FRC UK Combined Code, Guidance on Audit Committees and the Stewardship Code, following recommendations from Professor Kay's final report examining investment in UK equity markets and its impact on the long-term performance and governance of UK quoted companies. Changes will apply with effect from accounting periods beginning on or after 1st October 2012. BAPIML have revised their Statement of Application of the Stewardship Code to adhere to the amended version of the Stewardship Code published at the end of September 2012.

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

Those institutions wishing to apply the Stewardship Code should inform the FRC of their intention to do so, have a statement on their website including a description of how the principles of the Code have been applied, disclosure of specific information listed under principles 1, 5, 6 and 7, and an explanation if elements of the Code have not been adhered to. The Code is reviewed by BAPIML annually.

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

Principle 1

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

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

Principle 2

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

BAPIML are an in-house fund manager and therefore would not experience the conflict issues of an external manager. However, along with all regulated firms BAPIML has clear policies which address the identification, management and disclosure of conflicts of interest covering: close relationships, inducements and behaviour which might be considered to give rise to an allegation of market abuse.

Principle 3

Institutional investors should monitor their investee companies.

The Management Trustees consider all aspects of corporate governance are adhered to through use of the NAPF CG policy guidelines and the ISS voting recommendations and research provider. Through the Scheme's Custodian Trustee, British Airways Pension Trustees Limited (BAPTL), the Trustees receive vote activity reports from BAPIML followed by an annual report on the corporate governance and SRI programmes. If BAPIML follow an alternative form of action from the suggested guidelines a clear explanation is given. Where there is an issue with an investee company BAPIML enter into dialogue whenever practical with the company before making an informed decision.

Communication with companies, on corporate governance and SRI issues are recorded for UK investee companies and are available internally. When engaging with investee companies or brokerage firms BAPIML prefer to be informed at the start of a meeting of any potential risk of becoming an insider, to enable Fund Managers to "opt-out" if necessary.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship.

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

Principle 5

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

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

Principle 6

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

The Trustees have a clear policy on voting within the Statement of Investment Principles which is reviewed annually. BAPIML uses the NAPF Corporate Governance Guidelines which are incorporated into the ISS research and voting recommendations. BAPIML has on many occasions disagreed with both the NAPF and ISS. When BAPIML vote contrary to management or against guidelines, an explanation is placed on the report and wherever practical communication takes place with the company, either before or after the event, and is recorded on file. The Trustees disclose their policy and BAPIML voting activity on the member website.

BAPIML operate a stock recall process for voting purposes and has discretion over the stock lending programme for voting purposes. Stocks may be restricted from the lending programme, recalled on demand, particularly where there are contentious agenda issues, and recalled automatically for selected markets. A decision to vote full entitlements by the Fund Manager may be influenced by favourable income levels from stock 'on loan'.

Principle 7

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

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

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