

BAPIML Statement of Application of the Stewardship Code

31 August 2018

The Financial Reporting Council's (FRC) UK Stewardship Code (the Code) was published in 2010 with the purpose of improving engagement between institutional investors and companies and to enhance the long term returns to shareholders. The Stewardship Code principles were taken from the pre-existing Institutional Shareholders Committee Code which we follow, with a small number of amendments. The PLSA endorsed the Stewardship Code and encouraged its widespread adoption.

The Stewardship Code provides a "comply or explain" code for institutional investors. 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, and an explanation if elements of the Code have not been adhered to. The Code should be reviewed annually and any changes should be notified to the FRC. In 2016 the FRC assessed signatories to the Code based on the quality of their reporting against the Code; BAPIML achieved Tier 1 under the new rating system. BAPIML have reviewed the Statement of Application of the Stewardship Code and no changes were made for 2018. The FRC is in the process of launching a consultation to review and amend the Code for 2019.

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 Pensions and Lifetime Savings Association Policy and Voting 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 internal Fund Managers

consistent with this approach, where practical. A dedicated responsible investment team supports the internal Fund Managers in their monitoring and integration of stewardship requirements into their active investment process. Fund Managers monitor investee companies on governance, environmental and social issues. Topics monitored include; remuneration, independence of the board, disclosure of environmental practices, carbon emissions and human capital management.

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 is an in-house fund manager and therefore would not experience the conflict issues of an external manager. BAPIML do not invest in the Scheme's corporate sponsor. The management of conflicts arising in corporate governance is embedded within the conflicts management policies of the firm. As 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. Any potential occurrence is discussed with the Compliance Officer.

Principle 3

Institutional investors should monitor their investee companies.

The Management Trustees consider all aspects of corporate governance are adhered to through the use of the PLSA 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 follows 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 and International investee companies and are available internally. When engaging with investee companies or brokerage firms BAPIML prefers 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.

BAPIML have engaged with investee companies on a wide range of topics, the most common of these would be remuneration. In addition BAPIML engage on human rights issues and climate risk, particularly on the disclosure of carbon emissions data. BAPIML are most likely to engage where a Fund Manager has voted contrary to management at a corporate meeting or as a result of a high profile campaign causing reputational damage.

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 letter is sent to the appropriate member of the board. If an adequate explanation is not forthcoming then BAPIML will request a meeting with senior management. 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.

BAPIML may consider engaging collectively when the subject is in the best interest of the Fund, where the Fund Manager's direct engagement has failed or the issue is causing reputational damage. Issues BAPIML have collaborated on in the past have been on remuneration, in particular; excessive increases to base salary or incentives and lack of clawback provisions. BAPIML has also collaborated on climate change risks and disclosure and human rights issues. Collaboration with likeminded institutions has proved valuable in securing meetings with investee companies in particular where the Scheme has a small holding. All parties attending combined investor and company meetings sign a term of reference which contains notes on objectives, an agenda for the meeting, a memorandum of understanding, conflicts of interests and insider information. BAPIML attend case committee meetings held by the PLSA where relevant and work informally with committees and pension funds. BAPIML are signatories to the Carbon Disclosure Project. Invitations to participate in collaborative initiatives are to be directed to Angela Sanders at BAPIML.

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 PLSA Corporate Governance Guidelines which are incorporated into the ISS research and voting recommendations. BAPIML has on many occasions disagreed with both the PLSA 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, annual findings of the UK and International Corporate Governance & SRI programmes and BAPIML global 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. Stocks may be restricted from the lending programme, recalled on demand, particularly where there are contentious agenda issues or market manipulation of the share price, and are 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.

This statement of compliance was reviewed in August 2018 by Angela Sanders, CG & SRI Specialist, BAPIML

