

Coal Staff Superannuation Scheme Trustees Limited

UK Stewardship Code Compliance Statement

The Trustees of the British Coal Staff Superannuation Scheme (BCSSS) support the UK Stewardship Code. The Trustees believe that widespread adoption of good Corporate Governance practice will improve the quality of management and, as a consequence, is likely to increase the returns available to long term investors.

The Trustees acknowledge the role of the Fund as an asset owner under the Stewardship Code and therefore seeks to hold to account its fund managers and service providers in respect of their commitments to the Code.

BCSSS Trustees have appointed Hermes Equity Ownership Services (EOS) to assist in fulfilling its fiduciary responsibilities as a long term shareholder of Global Equities. BCSSS believes that oversight of its equity shareholdings by Hermes EOS and also and where appropriate, by the fund managers that it employs, enables it to implement a high standard of stewardship on behalf of the beneficiaries of the scheme. For other investment classes the Committee relies upon its investment advisor to undertake effective due diligence and ongoing monitoring to ensure that environmental, social and governance considerations are taken into account in the selection, retention and realisation of investments through its investment managers.

How BCSSS discharges its stewardship responsibilities

On behalf of BCSSS, Hermes EOS undertakes company-specific engagements with the objective of achieving beneficial and sustained change. Hermes EOS applies a holistic approach to analysing company performance, policies and practices based on corporate disclosures and research on Environmental, Social and Governance (ESG) factors. Reference is made to international best practice guidelines including those of the OECD, ICGN, UN GC as well as Hermes Responsible Ownership Principles.

http://www.hermes.co.uk/Portals/0/The_Hermes_Ownership_Principles.pdf

The engagement work with investee companies on behalf of BCSSS is aimed at achieving sustainable investment returns through the promotion of long term responsible business strategies. Engagements undertaken on behalf of BCSSS are guided by BCSSS's Corporate Governance Policy which can be found at <http://www.bcsss-pension.org.uk/>

Hermes EOS and the investment managers monitor company performance on issues relevant to long-term value on an ongoing basis. Such issues include: corporate strategy and

governance; capital structure; board structure; directors' pay; social, environmental and ethical matters; and risk management.

Hermes EOS uses a clear set of screens to identify companies with issues and trigger points to launch, intensify or evaluate engagements. Company performance on issues relevant to long-term value is monitored on an ongoing basis; strategy; capital structure; board structure; pay; social, environmental and ethical matters; and risk management. On meeting Hermes EOS's rigorous criteria for escalation, companies are included in Hermes EOS's engagement programme based on a formal proposal approved internally by the Engagement Committee which oversees the process.

Through Hermes EOS, BCSSS also promotes effective regulation in the markets in which it invests to encourage governance structures that facilitate the accountability of companies to their owners, to give companies the certainty they need to plan for the future and to promote a level competitive playing field, which enables companies to prioritise long-term profitability.

Policy on Collective Engagement

By appointing Hermes EOS to enhance the level of engagement undertaken with investee companies, BCSSS has signalled its commitment to the benefits of collective shareholder engagement. Hermes EOS represents BCSSS at many national, regional and global organisations and seeks to enhance its effectiveness by working collaboratively with other institutions by pooling together long term investors' resources so as to protect and enhance shareholder value. Hermes EOS seeks to work with these organisations and also alongside other individual institutional investors to effect change most efficiently.

Among these are: the United Nations Principles for Responsible Investment and its Clearing house for engagements (as well as a number of more localised UNPRI initiatives); the International Corporate Governance Network; the Asian Corporate Governance Association; the Canadian Coalition for Good Governance; Eumedion in the Netherlands; and the NAPF Stewardship Advisory Group. Hermes EOS seeks to work with these organisations and also alongside other individual institutional investors to effect change most efficiently.

Voting

BCSSS takes measures through Hermes EOS to ensure that its holdings are voted consistently, across its portfolios. Voting decisions are based on an analysis of publicly available information and take account of a company's individual circumstances. Hermes EOS informs companies where it has concerns and seeks to resolve these prior to taking the decision to vote against a resolution. In this way, it deploys BCSSS's votes as a lever for positive change at companies

Voting decisions are based on a thorough analysis of publicly available information and always take account of a company's individual circumstances. Voting decisions are instructed

by Hermes EOS through ISS Governance Services voting platform, in accordance with BCSSS' own policy. Hermes EOS informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against a resolution. In this way, it deploys the BCSSS votes as a lever for positive change at companies.

In reaching decisions on how to vote, Hermes EOS implements BCSSS's Corporate Governance Policy. Hermes EOS also takes account of its own regional voting guidelines which can be found at

<http://www.hermes.co.uk/eos/Literature/PolicyDocuments/tabid/240/language/en-GB/Default.aspx> which have been reviewed by BCSSS.

Reporting

Summarised historic voting information is included at <http://www.bcsss-pension.org.uk/>. We disclose this quarterly in arrears so as to avoid compromising dialogue with companies in our portfolios, whilst being fully transparent and accountable.

We also disclose, on a quarterly basis, summary details of the engagements undertaken by Hermes EOS with companies on our behalf and summary statistics showing the key issues on which Hermes EOS has engaged with the companies in which the BCSSS is invested.

Evaluation

Hermes EOS obtains an independent AAF 01/06 assurance report on an annual basis and makes this available each year to BCSSS. The purpose of this report is to provide an independent review to BCSSS regarding Hermes EOS' provision of stewardship services to the Trustee.

Stocklending

The Fund has an active stocklending programme but is always ready to recall stock from a loan where it appears that this would be an appropriate way to safeguard the Fund's financial interests. EOS supports this process by providing the Trustees with a list of companies which it might consider for recall at any given time.

Conflicts of Interest

BCSSS has developed policies to identify, manage and disclose any potential conflicts of interest that may arise in relation to the stewardship of its investments.

Hermes EOS is governed by its own conflict of interest policyⁱ which requires that it identifies and manages actual or potential conflicts of interest between itself and its clients, or between different clients of Hermes EOS. In the event that a conflict occurs between Hermes EOS and its client then it is the clients' interests that are put first.

http://www.hermes.co.uk/Portals/8/Conflicts_of_interest_policy.pdf

For more information on our stewardship activities please contact Gerry Lane, Chief Operating Officer.

ⁱ www.hermes.co.uk/Portals/8/Conflicts_of_interest_policy.pdf