

RBS Pension Trustee Limited Responsible Ownership Policy

Background

RBS Pension Trustee Limited (the 'Trustee') is the trustee of The Royal Bank of Scotland Group Pension Fund (the 'Fund'). The Trustee believes that environmental, social, economic and governance performance are fundamental to a company's enduring success and therefore to its long-term financial returns. The Trustee also believes that the goal of any company should be to generate and deliver sustainable long-term financial value, which will be helped by having long-term owners to whom the company is accountable and by having owners that are clear about their expectations. The Trustee seeks to invest in companies which embrace these objectives and are able to demonstrate that they do so.

The Trustee's assets are overseen by RBS Investment Executive Limited ('RIEL') and managed through external fund managers; the monitoring, voting and engagement processes described below apply in principle to all of these assets when appropriate, although implementation may be phased.

Responsible Ownership Policy

It is the Trustee's policy to implement Responsible Ownership in its investment approach. The Trustee is a signatory to the UK Stewardship Code (see Annex 1) as a framework for its interaction with companies in which it invests, and as a framework for its expectations of how its investment management processes will take into consideration relevant environmental, social and governance issues. The Trustee acknowledges 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. The Trustee has adopted the UN Global Compact Principles (See Annex 2) as a framework for its expectations as to the behaviours and approach of the Fund's underlying assets.

In order to give effect to this policy, the Trustee has employed a recognised third party service provider, Hermes Equity Ownership Services Ltd ('EOS') to assist in its implementation. There are three major elements to this: monitoring of Fund investments, engagement with investee companies as appropriate and also with regulators and standard-setters, and voting of Fund shares.

EOS will work with the Trustee to assist it to establish and implement such controls and measures as may be necessary for the Trustee to fulfil its obligations as a signatory to the UK Stewardship Code.

Conflicts of interest

The Trustee has a Conflicts of Interest protocol under which directors and key advisers (including the staff of RIEL) are required to declare any outside duties or interests that might conflict with their duties with regard to the Trustee. EOS has a Conflicts of Interest policy which asserts that client interests are put first by that organisation and under which actual or potential conflicts of interest between EOS and its clients or between different clients of EOS are identified and managed appropriately. This policy is available at www.hermes.co.uk/Portals/8/Conflicts_of_interest_policy.pdf. The Trustee seeks assurance on a regular basis that this policy remains robust and effective and holds EOS to account for delivery in respect of it.

Monitoring of investee companies

EOS, on behalf of the Trustee, will monitor the companies in which the Fund invests in order to ensure that they are taking appropriate steps to produce sustainable financial returns for shareholders. In particular, EOS will seek to identify any situation where long-term shareholder value may be compromised due to unsatisfactory environmental, social and ethical performance or risk of governance or strategic failure. EOS will also take account of the extent to which companies are demonstrating alignment with the general principles of the United Nations Global Compact which the Trustee has adopted as a framework for its expectations of portfolio companies.

EOS will assess all companies in the Fund portfolio for breaches of generally recognised responsibilities and norms under UN treaties and for other behaviours which are deemed unsustainable, considering the risks specific to the relevant sector(s) in which the company operates. EOS may use one or more external screening agent(s) to assist its review of all companies in the portfolio. This screening process will be supplemented with an in-depth assessment of a company's activities by a member of the EOS team. In assessing companies' governance practices, reference will be made to the Hermes Responsible Ownership Principles, as periodically updated.

Where a company's activities are found clearly to conflict with relevant English law or guidance from the UK government, or with international treaties ratified by the British parliament, this will be reported by EOS to RIEL on behalf of the Trustee. This may result in one of two outcomes:

- A decision to engage with the company with a view to having the company desist from that activity. Such engagement should be held at an appropriate level and be subject to ongoing review as to its progress. If after a reasonable time engagement has been unsuccessful then divestment might be the response.
- In exceptional circumstances where conduct is overtly unacceptable and/or there seems no reasonable prospect of engagement success, an immediate decision by RIEL on behalf of the Trustee to divest from the company.

The Trustee portfolio will be screened by EOS to identify those companies creating an immediate risk to the portfolio through involvement in the activities and behaviours identified above, and other pertinent governance and ethical issues as agreed from time to time with EOS. In addition, the Trustee invites the Fund's investment managers to share with it any instances where their monitoring indicates that a company may face an under-managed or under-mitigated risk which could have a material impact on long-term value. As appropriate EOS will hold a dialogue with the Fund's investment managers in relation to environmental, social or governance concerns which may be relevant to companies' long-term value.

The Trustee is unwilling to become an insider through this dialogue with companies. On occasions EOS or RIEL may be willing to become an insider in order to foster a positive working relationship and build trust.

Engagement and escalation

Where concerns are raised through the monitoring process, or through another channel, EOS will consider engagement with the company in question on behalf of the Trustee. Such consideration will be based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of the Fund's holding. Company-specific engagements will normally be undertaken by EOS where it believes that:

- Engagement may prevent or limit a decrease in the value of a company's shares
- Engagement may lead to an increase in the value of a company's shares.

This engagement may involve among other potential actions:

- Meetings with executives and non-executive directors.
- Discussions with the other shareholders of the company.
- Participation in collaborative investor initiatives.
- Submission of shareholder resolutions at general meetings as appropriate.

EOS shall monitor the risk of “acting in concert” in relevant jurisdictions and shall warn RIEL (on behalf of the Trustee) of any such risk.

Proposals for engagements may be initiated as a result of EOS’s research or at RIEL’s or the Trustee’s request and will usually be prompted by some breach of the social, environmental, ethical, governance, and strategic principles agreed with the Trustee and referenced in the Hermes Responsible Ownership Principles. Unless the Trustee requests otherwise, engagements with companies will be undertaken in the EOS name, and will typically take the form of a private dialogue between EOS and the engagee company.

Engagements may relate to longer-term environmental, social or governance issues, which may not have immediate stock-specific benefits, for example where the company’s shares are already fully valued and the intent is to preserve that value. Engagements will range in scope. Less intensive engagements may involve only a few discussions between the EOS team and the investee company, while more intensive engagements will typically involve a lengthy sequence of dialogues at board level over a period of years. Engagement will be escalated according to the nature and severity of the concerns, so that engagements may become more or less intensive over time. Where engagement does not result in a satisfactory outcome and EOS sees no realistic prospect of progress in an appropriate period of time, then RIEL on behalf of the Trustee will consider whether to retain its investment in the company.

Details of all intensive engagements undertaken by EOS will be formally reported to RIEL on a quarterly basis. Additionally, EOS will provide RIEL with interim and ad hoc updates as to its progress with specific companies, and will make it aware of other engagements on issues which may be of relevance or are likely to be particularly sensitive. Given the need for much of this work to remain confidential, EOS will report to RIEL as fully as possible on the outcome of its engagement with companies.

In addition to engagement with companies EOS may from time to time hold dialogue with governments and/or regulators to protect and promote the interests of institutional investors and to limit systemic risks to their investments, as well as responding formally to consultations as deemed appropriate.

Collective Engagement

By appointing EOS, the Trustee is signalling its commitment to the potential benefits of collective shareholder engagement. EOS pools together institutional investors’ resources to create an engagement service which increases the likelihood of protecting and enhancing shareholder value. In addition, EOS participates in many national, regional and global organisations as a way of enhancing its effectiveness by working collaboratively with other institutions. Among these are: the United Nations Principles for Responsible Investment and its Clearinghouse 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’s Shareholder Affairs Committee. EOS seeks to work with these organisations and also alongside other individual institutional investors to effect change most efficiently.

Voting policy and approach

It is the Trustee's policy to exercise its voting rights in all practicable cases, based on its Responsible Ownership principles. The Trustee has appointed EOS to assist it in exercising its voting rights as a responsible owner of companies at entities that it invests in. As part of its ongoing monitoring process, EOS will vote at company general meetings in accordance with the corporate governance and voting principles it has agreed with the Trustee, using appropriate discretion to vote differently where after dialogue with the company or interpretation of its disclosures this seems likely better to support the achievement of engagement objectives and long term value creation by the company. To enable RIEL to monitor on an ongoing basis how shares are being voted on the Trustee's behalf, EOS provides RIEL with access to the electronic proxy voting platform to which it subscribes and with an up-to-daily email notification of its voting recommendations. EOS also reports to RIEL on votes cast on the Trustee's behalf on a weekly and quarterly basis and provides alerts in advance of upcoming meetings that may be of particular relevance or sensitivity by virtue of either industry or geography.

Where, in accordance with the policy agreed with the Trustee, EOS recommends voting against or abstaining from voting on management resolutions, EOS will inform the company's management of the reasons for so doing, where practicable in advance of the general meeting. The Trustee will disclose to its members how its votes have been cast on a quarterly basis, describing the reasons for votes against management or abstentions.

Votes cast by EOS on the Trustee's behalf will be informed by company-specific research on environmental, social, governance and other matters which might impact on voting and engagement decisions. EOS will make voting recommendations based on the unique circumstances of each company, taking local best practice and regulation into account. It will execute the vote in accordance with the Trustee's interests as a long-term owner and undertake relevant voting-related dialogue with companies.

EOS notifies the Fund's investment managers of its voting recommendations in advance of the meeting date. Where the investment manager has conflicting views as to how shares should be voted, EOS will hold a discussion with the investment manager to try to agree a position. In instances where the investment manager and EOS are unable to agree a common position, RIEL will take the ultimate decision on the Trustee's behalf as to how the vote should be cast.

EOS provides specific notification to the Fund's investment managers of votes to be cast in "blocking" markets (these are markets where trading is limited on shares which are subject to voting activity). In such markets, to prevent the investment managers from being blocked from trading either side of the shareholder meeting date, EOS has put in place a process whereby it will enter a voting recommendation to its electronic voting platform and will send an email alert requesting the investment manager to ratify the vote if it does not intend trading the relevant shares.

The Fund's shares are not made available for stocklending activity.

The Fund's summarised voting and engagement records are made available on request.

Evaluation and Reporting

RIEL, the Trustee and EOS will evaluate the impact of its monitoring, voting and engagement programmes on an ongoing basis. EOS provides weekly and quarterly reports to RIEL on voting and engagement activities in respect of the Fund holdings with sufficient

detail to enable RIEL to assess the quality of the activities carried out. EOS obtains an AAF 01/06 assurance on an annual basis and makes this available each year to the Trustee.

EOS will prepare annually a detailed evaluation of its engagement work on the Trustee's behalf, including an assessment of progress against the objectives set in individual engagements.

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Contacts

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Annex 1: The Seven Principles of The UK Stewardship Code

1. Publicly disclose policy on stewardship responsibilities
2. Robust policy on managing conflicts of interest
3. Monitor investee companies
4. Clear guidelines on escalation of stewardship activities
5. Be willing to act collectively with other investors
6. Clear policy on voting and disclosure of voting activity
7. Report periodically on stewardship and voting activities

Annex 2: The Ten Principles of the UN Global Compact

Human Rights

1. Business should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour Standards

3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all forms, including extortion and bribery.