

COAL STAFF SUPERANNUATION SCHEME TRUSTEES LTD

Corporate Governance Policy

INTRODUCTION

The British Coal Staff Superannuation Scheme (BCSSS) subscribes to the UK Stewardship Code and it has developed this policy to guide its fund managers and other agents in the exercise of its ownership rights. 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.

GENERAL APPROACH

BCSSS Trustees have decided that the most effective way to implement its policies and fulfil its undertakings as an adherent to the Stewardship Code is to appoint Hermes Equity Ownership Services (EOS) as its agent for the stewardship of most of its equity investments in the UK and overseas.

Hermes EOS will vote in accordance with this policy and where appropriate engage with corporate management to improve shareholder value and report on its activities. Providing no ongoing engagement activity is compromised, BCSSS will publish the results of these engagement activities.

BCSSS supports collaborative shareholder action and where applicable will communicate and collaborate with other shareholders, supported by Hermes EOS.

Hermes EOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose BCSSS's involvement in such engagements, unless specifically agreed in advance. For companies identified by BCSSS as being of particular interest to BCSSS, Hermes EOS will revert to BCSSS for further instructions before abstaining, exercising a vote against management or in favour of a shareholder resolution and in advance of engaging with these companies.

In carrying out company monitoring, voting and engagement activities on behalf of BCSSS, Hermes EOS uses as a basis for its approach BCSSS's Voting and Engagement policy as described in this document and the Hermes Responsible Ownership Principles http://www.hermes.co.uk/Portals/8/The_Hermes_Ownership_Principles_UK.pdf

In addition to Hermes EOS, a number of our fund managers, take direct responsibility for stewardship issues, voting and engagement in the funds they manage on the Schemes behalf. These managers also publish Statements of Compliance with the Stewardship Code and further details can be found at their websites.

ENGAGEMENT

Hermes EOS has been appointed to undertake engagements on behalf of BCSSS with companies on issues that may impact the companies' long-term sustainable shareholder value. Where appropriate the fund managers employed by BCSSS may also engage with companies in its portfolios. Hermes EOS and the Schemes fund managers will use the principles identified here and in their policies as the basis for engagement. Proposals for engagement, whether generated by Hermes EOS or BCSSS directly, or by its fund managers usually involve some breach of generally accepted financial, strategic, operational, legal, social, environmental, ethical or governance best practice, or a breach of the Hermes Responsible Ownership Principles

Engagements may relate to longer-term strategic, environmental, social or governance issues, which may not have immediate stock-specific impacts, for example where the company's shares are already fully valued and the intent is to preserve that value. Hermes EOS will escalate its engagement according to the nature and severity of the concerns.

Company specific engagements are normally undertaken where it is believed that:

1. Engagement will lead to an increase in the value of a company's shares over the long term
2. Engagement will prevent or limit a decrease in the value of a company's shares over the long term

In determining whether and how the engagement is taken forward, due regard is given to the level of the company's exposure to the issue at hand and the likelihood of engagement success and potential to bring about positive change. Such considerations are based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of BCSSS's holding.

Engagements may involve:

- Meetings with executive and non- executive directors

- Meetings with other company representatives
- Discussions with the other shareholders of the company
- Participation in collaborative investor initiatives
- Submission of shareholder resolutions at general meetings as appropriate

In addition to engagement with companies, Hermes EOS has a broad public policy engagement programme internationally which it carries out on behalf of BCSSS and the other investors it represents, engaging with governments and regulators to promote the interests of long-term institutional investors.

VOTING

Voting is an important investor right and responsibility. Through its agent, Hermes EOS, and also and where appropriate, by the fund managers that it employs, BCSSS seeks wherever practicable to vote responsibly on every resolution at all meetings of companies in its portfolios.

Voting is regarded as an important constituent of BCSSS's engagement programmes and the use of voting rights attached to shares held by BCSSS is appropriately aligned to its overall responsible investment policies and objectives.

Voting recommendations are made based on the unique circumstances of each company, taking into account local best practice and regulation. Voting is undertaken pragmatically and in pursuit of positive change. The purpose of the vote is to achieve beneficial change in company behaviour, not simply to register dissatisfaction. Votes are executed in accordance with BCSSS's interests as a long-term owner.

Whenever practicable, BCSSS, through Hermes EOS, seeks to communicate with portfolio companies in advance of casting a vote against management to explain BCSSS's rationale and to seek change to the company's position. Where a vote against management is cast, communication is continued with the company to explain the voting action and to discuss possible solutions to avoid a recurrence.

Specific Voting Policies

Board behaviours and composition

The board should be comprised of individuals with relevant and diverse skills, knowledge of the company and experience in the sectors and regions in which the company operates.

BCSSS encourages the development of appropriate board behaviour and expects open disclosure on individual directors' contributions to the board.

No individual director or small group of directors should be in a position to dominate the decision making process. BCSSS views independence as a mindset rather than as a box-ticking exercise.

Board committees should be set up for audit, nomination and compensation and appropriately constituted to effectively undertake their role.

In general, BCSSS supports the separation of the roles of Chair and Chief Executive to ensure that appropriate challenge is present at the top of the company.

BCSSS encourages active and open dialogue between the board and shareholders. While the first point of contact in most cases will be the chairman, it advocates the appointment of a lead independent director to facilitate this process where a conversation with the chairman is not appropriate.

The board as a whole should act in the best interests of all shareholders and should establish appropriate channels of communication to facilitate this.

Remuneration

Remuneration structures should be designed to incentivise executives to promote the long-term, sustainable performance of the company. In some markets, shareholders are entitled to vote on compensation structures and BCSSS ensures that votes are submitted according to the following policies.

- Compensation structures should directly link pay with performance, avoiding the possibility of reward for failure and incorporating risk management to ensure practices that promote sustainable performance.

- Significant consideration should be given by the remuneration committee as to how performance criteria and hurdles accurately represent the long-term goals and ambitions of the company.
- The interests of key executives should be aligned with those of shareholders through material direct company investment.
- Clear disclosure of remuneration structures and their rationale should be made annually with board consultation with major shareholders on material changes.
- Independent directors' pay should not be structured such that it could impair their independence.

Risk management and audit

An important function of the board is to ensure that risks are appropriately managed and that company reporting accurately represents the financial position of the business. Independent board-level oversight should be in place through the audit committee. If appropriate, a separate risk committee should be established to ensure adequate supervision and accountability.

Regular reports on the effectiveness of the risk management function should be made to the full board with the audit or risk committee taking ownership of its supervision.

The risk management function should cover all areas of a company's operations. Risk management should be treated as integral to a company's business strategy and values rather than simply as a compliance issue. Those responsible for this function within the business should be given the necessary status to enable them to effectively carry out their role.

The underlying risks to which a company is exposed should be clearly communicated to shareholders along with the structures in place to manage these risks. This should be done in a way that highlights key risks.

To promote accountability, shareholders should be given a vote on the re-appointment of the company's auditors.

Promotion of equitable shareholder rights

BCSSS aims to ensure its rights are protected by voting against resolutions that are considered not to be in its interests as a shareholder, including excessive dilution through share issuances and the establishment or maintenance of inequitable shareholding practices such as double voting rights.

Shareholder Proposals

Where shareholder proposals are submitted at BCSSS's portfolio companies, an analysis of the benefits of the proposals to the long-term value of the company is made. This takes into account BCSSS's aims as a good owner and supports shareholder objectives that are consistent with promoting long term sustainable shareholder value at investee companies. BCSSS supports shareholder proposals that require full and timely disclosure of all policies, practices and matters that materially affect shareholder value.

EVALUATION AND REPORTING

Hermes EOS and the other investment managers report on a quarterly basis to BCSSS on voting and engagement activity undertaken on the Scheme's behalf. Hermes EOS also prepares annually an evaluation of the progress and impact of engagements on companies in BCSSS's portfolios. A copy of these reports can be found on our website <http://www.bcsss-pension.org.uk/>