Responsible Investment Policy

Introduction

This policy defines the commitment of the Trustees of the British Coal Staff Superannuation Scheme ("the Scheme") to responsible investment including long-term sustainability, the integration of environmental, social and governance ("ESG") factors, and stewardship of its investments.

The Trustees' fiduciary duty is to act in the best interests of members and the Trustees' primary objective is to pay all member benefits from the Scheme's assets. Sustainability, defined as meeting the needs of the present without compromising the ability of future generations to meet their own needs, is an important and evolving long-term trend, which is likely to impact financial returns and risks of different investments in different ways. Therefore, the Trustees have established this policy to set out its approach to the relevant issues.

The policy is organised as follows:

- A recap of the Trustees' relevant investment belief.
- A summary of the Trustees' key strategic considerations in this area.
- Integration of ESG factors into investment analysis and decision-making.
- The Trustees' approach to stewardship.
- Reporting and communication.

Investment Beliefs

The Trustees' views on sustainable investment and ESG are captured within one of the Trustees' investment beliefs below:

Long-term investment success should come from a focus on sustainability. In particular, environmental, social and governance ('ESG') factors can have a material impact on long-term investment returns. They should be considered before any investment is made.

- *Investments with good or improving ESG 'credentials' are more likely to deliver long term sustainable returns*
- *The more long-term an investment, the more important ESG factors become*
- *Ignoring environmental and societal and regulatory issues can create investment and reputational risk, which ultimately reduces return*
- *Being a good steward of assets can lead to better risk adjusted returns*

Strategic considerations

Given the long-term nature of the Scheme's liabilities, the Trustees believe that the Scheme's investments need to integrate ESG/sustainability risks and opportunities into investment analysis and decision-making processes. Strategic considerations from an ESG perspective are generally focused on global issues. However, the importance of local impacts from investments made, e.g. on communities, may also be critical. When new investments are considered, the Scheme, as far as practical, will consider whether there are any observable factors relevant to that investment that may have a positive or negative impact on members e.g. an investment that supports or may risk jobs in areas where members live.

The UN's 17 Sustainable Development Goals ("SDGs"), outlined below, provide a useful starting point for establishing the Trustees' strategic considerations. The SDGs are an articulation of the world's most pressing sustainability issues and as such act as a globally supported sustainability framework.

The Trustees recognise that economic growth is a key driver of long-term returns and therefore acting in such a way as to encourage sustainable economies and markets is important to help mitigate and manage some of the issues highlighted above. The Trustees have identified four strategic considerations flowing from the SDGs that cover key long-term financial and reputational risks, and opportunities:

- <u>Resource efficiency</u> – water, food, renewables, waste reduction/pollution
- <u>Just transition to a low carbon economy</u> – clean energy, technology, regulation, local impacts (jobs, communities)
- <u>Equality</u> – human rights, labour rights, executive compensation
- <u>Governance</u> – Board accountability for long-term success, reporting and disclosures

How these factors may impact the Scheme's assets over the long-term is an important investment consideration. As a result these strategic considerations will be assessed and integrated into investment decisions and processes to help mitigate risks and identify opportunities.

The Trustees recognise that collective efforts towards the challenges of the SDGs will have a greater impact. Therefore, the Scheme will look to collaborate with other asset owners to better mitigate the risks and capture the opportunities from the SDGs.

ESG Integration

ESG factors should be properly managed and integrated into analysis and investment decision-making processes across the whole portfolio.

The Trustees do not currently target asset classes or individual investments with positive sustainable or "impact" attributes as a primary objective. However, the Scheme already has certain investments that have a sustainable focus aligned with the strategic considerations above.

The Trustees currently have no policy on exclusions or negative screening of investments, however, the Trustees intend to review their approach to exclusions within the next 12 months. The Trustees believe that ESG factors are one of many considerations in making investment/disinvestment decisions.

The Scheme's assets are managed by third party investment managers. Therefore, the main focus for ESG factor integration is the evaluation and assessment of those external managers' policies and procedures in this area, particularly the alignment with the Trustees' strategic considerations described earlier. Thoughtful manager selection and monitoring is crucial to ensure externally appointed investment managers employ best practice when integrating ESG into their investment decision-making processes.

External investment managers must be able to explain the ESG considerations included in making investment decisions. In particular, they must be able to demonstrate that where there is a material risk or return consideration to an underlying investment from one or more ESG factors, they are able to identify, model as appropriate, and consider the potential threats and/or opportunities to their investment case.

Stewardship

The Scheme is an active owner and the Trustees have signed up to the UK Financial Reporting Council's "Stewardship Code". As stipulated in their investment belief, the Trustees believe that being a good steward of assets can lead to better risk adjusted returns. In particular, widespread adoption of good Corporate Governance practice and a focus on long-term success will improve the quality of company management and is likely to increase the risk adjusted returns available to long term investors.

Where the Scheme has public equity investment managers with strong engagement and voting expertise, the Trustees allow these investment managers to engage and vote the equities they invest for the Scheme. For public equities managed by investment managers without this deep expertise, the Trustees have appointed Hermes Equity Ownership Services (EOS) to ensure their responsibilities as long-term shareholders of global equities are fulfilled. The Trustees believe that such oversight of the Scheme's public equity shareholdings by Hermes EOS and investment managers with strong voting and engagement expertise (Baillie Gifford, BlackRock and Schroders) enables it to implement a high standard of stewardship, particularly around company engagement and voting.

On behalf of the Scheme, Hermes EOS and the investment managers undertake company-specific engagements with the objective of achieving beneficial and sustained corporate change. Hermes EOS and the investment managers seek appropriate disclosures and 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. The engagement work with investee companies on behalf of the Scheme is aimed at achieving sustainable investment returns through the promotion of long-term responsible business strategies. Engagements undertaken on behalf of the Scheme are guided by the Scheme's Corporate Governance Policy.

The Trustees prefer engagement to divestment and, as highlighted above, have no formal policy on exclusions. However, divestment or exclusion may be considered if there is a direct conflict of an underlying investment with the Trustees' beliefs and objectives, or if there is a legal requirement or severe breach of corporate social responsibilities. External managers generally have formal escalation policies in place and will also consider disinvesting from an investment if they believe the potential effect from an ESG factor on long-term risk-adjusted returns is material.

Reporting and communication

The Scheme publishes on its website a summary of its Voting and Engagement activity with the companies in which it invests.

External investment managers are expected to be able to provide reporting and disclosure on a range of relevant long-term sustainability and ESG considerations. These include (i) articulation of how ESG factors are integrated into investment analysis and decision-making on behalf of the Scheme; and (ii) how the business itself is managing its approach to addressing responsible investment.

Material responsible investment issues that might have an impact on the Scheme's investments are reported to the Trustees.