Responsible Investment Policy

Introduction

This policy defines the commitment of the Trustee of the British Coal Staff Superannuation Scheme ("the Scheme") to responsible investment including:

- Economic, social and environmental sustainability;
- the integration of environmental, social and governance (ESG) factors into investment analysis and decision making; and
- the stewardship of its investments.

The Trustee's fiduciary duty is to act in the best interests of the Scheme's members and the Trustee's primary funding objective is to pay all member benefits from the Scheme's assets without requiring new funds from the Guarantor, seeking to improve member outcomes when appropriate opportunities arise. 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 the Trustee believes can have a material impact on long-term investment returns and thus achievement of the Trustee's objective. Therefore, the Trustee has established this policy to set out its approach to the relevant issues.

These responsible investment considerations can be broken down into the key strategic areas of environment, social and governance:

- Environment – particularly risks and opportunities related to climate change but also other areas such as pollution, natural resources, biodiversity and land use.
- Social - human rights, labour rights, inequality and diversity, health and wellbeing.
- Governance – how well the companies and assets invested in are run and overseen, with sufficient ownership rights and accountabilities.

The policy is organised as follows:

1. The Trustee's relevant investment belief.
2. Climate change.
3. The integration of responsible investment into the Trustee's decision-making.
4. Stewardship.
5. The Trustee's approach to collaborations, industry partnerships and initiatives.
6. Regulation, reporting and communication.

1. Investment Beliefs

The Trustee's views on sustainable investment and ESG are captured within one of its investment beliefs, as follows:

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 characteristics 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 may reduce return.*
- *Being a good steward of assets can lead to better risk adjusted returns.*

2. Climate Change

Climate change is a key area of focus for the Trustee within responsible investment, not least as climate risks could significantly impact the value of the Scheme's assets.

The Trustee is required by legislation to monitor and report on the Scheme's exposure to climate change and to have governance and risk management structures in place to oversee risks and opportunities in this area. In particular, the Trustee has to comply with the Task Force on Climate-Related Financial Disclosures ("TCFD") and monitor future regulation in this area.

The Trustee's approach to climate change is to assess risks and opportunities across all asset classes. The results of this assessment may impact asset allocation, manager appointments and mandate design.

The Scheme endeavours to collect and assess Carbon Emissions data across all areas of the portfolio with the following climate metrics monitored quarterly:

- Total emissions (tonnes of carbon dioxide).
- Emissions per unit of sales (tonnes of carbon dioxide per $m of sales).
- Percentage of the portfolio where actual carbon emissions data is available rather than proxied carbon emissions data.

In addition, the Trustee notes that potential new regulation may require the Scheme to include a fourth metric that measures the alignment of the Scheme's assets with the goals of the COP21 Paris Agreement.

3. Responsible Investment Integration

The Scheme will look to improve financial performance by considering material ESG factors, systemic risks, and global trends in investment analysis and decision-making processes. This may include both seeking specific new investments and avoiding or tailoring investments to better manage risks. 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. Material ESG factors, systemic risks, and global trends may be considered in all stages of the investment process as follows:

Asset Allocation – When considering global trends such as the low carbon energy transition, the Scheme may identify new investment opportunities or areas of high risk.

Mandate Design - When designing mandates for investment within any asset class, relevant ESG factors will be incorporated into investment guidelines.

Manager Selection - The Scheme's assets are managed by external investment managers. Therefore, evaluating the approach those managers take to ESG integration is a key area of assessment. The requirements in terms of minimum standards and best in class will vary by asset class and region - there is no one size fits all approach. Relevant considerations include the culture of the firm, the approach to key responsible investment themes, ESG resources and policies, portfolio holdings and approach to stewardship.

Stewardship - As discussed below and in more detail in the Trustee's Stewardship Policy, stewardship is an important tool for improving the sustainability of the investment portfolio and managing risks. This includes stewardship of companies, properties and infrastructure assets by third parties and also includes stewardship of the Scheme's manager relationships.

Exclusions – Whilst stewardship is one line of defence with regard to ESG risks there are times when stewardship itself cannot be effective. The risk inherent in investing in companies breaching UN Global Compact standards is significant and thus the Scheme's investment mandate design ensures that its external managers avoid investing in companies breaching these globally accepted standards.

Regulation and Reporting - The implementation and monitoring processes undertaken ensure compliance with any ESG-related regulation alongside reporting that provides the information necessary to ensure both compliance and oversight of investments.

Impact Investment - The Scheme does not currently make specific impact investments although many of the assets and companies in which it invests provide positive economic, environmental and societal benefits (e.g. solar energy, healthcare companies) and the Scheme has a positive impact through its stewardship of investments. If assets with attractive financial characteristics and also added benefits to society can be sourced, then these will be considered for investment.

4. Stewardship

The Scheme is an active owner and the Trustee has been accepted as a signatory to the UK Stewardship Code. As stipulated in its investment belief, the Trustee believes that being a good steward of assets can lead to better risk adjusted returns. As all of the Scheme's assets are managed externally, a key role in the Trustee's stewardship is the appointment of and engagement with the Scheme's external investment managers and with EOS at Federated Hermes, who the Trustee has appointed as a dedicated stewardship provider. Stewardship may also be undertaken in collaboration with other investors and industry organisations as described further below.

A key element to successful stewardship is escalation when engagement is not working – this can come in the form of changing the engagement approach, changing a manager or its guidelines, or excluding certain investments from the opportunity set if it is believed the potential negative impact on long-term risk-adjusted return is material.

Stewardship is discussed in greater detail in the Trustee's Stewardship Policy.

5. Approach to Collaborations, Industry Partnerships and Initiatives

The Trustee recognises that collective efforts may result in better mitigation of material ESG or sustainability risks or capture of associated opportunities. Therefore, collaborative engagements with other asset owners may be useful for achieving change and having a greater impact.

Where the Scheme may benefit in terms of knowledge and/or financial outcomes from joining collaborative partnerships or industry initiatives, then this will be considered.

6. Reporting and Communication

External Communication

This Responsible Investment Policy is published on the Scheme's website.

In addition, the Scheme publishes an annual Stewardship Report on its website, which outlines how the Trustee has fulfilled its stewardship responsibilities and presents outcomes from its stewardship activities. The Scheme also publishes on its website a summary of its voting and engagement activities for public equities.

In line with legislation, the Scheme will publish its first TCFD report following completion of the 2022 Trustee Report & Accounts. This will be published on the Scheme's website. The report will outline the Scheme's governance, strategy and risk management in relation to climate change. The report will also provide information on the Scheme's chosen metrics and targets as outlined above.

Internal Reporting

The Trustee will closely monitor ESG and stewardship data through its Investment sub-Committee and strategic adviser (Coal Pension Trustees Investment Ltd) including:

- carbon emissions and intensity;
- green revenues/climate opportunities;
- fossil fuel reserves;
- ESG scores;
- exposure to controversies;
- exposure to ESG laggards;
- voting on the Scheme's equity holdings;
- engagement activity.