

Voting Policy on environmental issues for 2011/12

General position

The Environment Agency Active Fund (EAPF) is fully committed to responsible investment. We believe well governed companies produce better and more sustainable returns than poorly governed companies.

We also think investors, including fund managers and shareholders, should influence the Board & Directors of under-performing companies to improve their financial and environmental performance through engagement and voting at annual general meetings.

Requirement on our all our fund managers and specialist engagement provider

We require all our fund managers to have due regard to the UK Corporate Governance Code and in respect of overseas investments have due regard to relevant recognised international and national codes and standards. Regular contact, at senior executive level, with companies, in which the Fund's assets are invested, is an important element of both the investment process and good corporate governance and we require our managers to report, quarterly, on their engagement and the outcomes achieved. Our fund managers refer "environmental" resolutions to us for advice on voting policy on these issues. We also published our voting record for all environmental resolutions. All managers are presently requested to vote the Fund's shares and quarterly monitoring reports are provided by our global custodian Northern Trust.

Our Corporate Governance Policy details the guidance on wider governance related issues.

Broad principles

While taking into account any relevant Environment Agency policies it is important to note that EAPF voting on environmental resolutions must be governed by our fiduciary duty and the long term interests of the Active Fund beneficiaries.

We will support resolutions that safeguard or enhance shareholder value associated with financially material environmental risks and opportunities. We will focus our attention on the quality of corporate governance (and especially corporate environmental governance) of UK, US, EU, Far East and emerging markets in that order, and this is also linked to the relative size of our holdings.

The EAPF support corporate effort to tackle environmental risks and issues, particularly climate change and therefore do not support environmental resolutions which: it believes are being proposed in "bad faith" (e.g. with the aim of undermining the environmental or corporate responsibility actions taken by companies); by organisations or individual who are clearly seeking to undermine good corporate environmental governance or which seek to get companies to justify basic environmental science (e.g. reports challenging the validity of climate change). With regard to this we have not supported the resolutions proposed by vexatious entities and individual shareholders.

It is imperative to fulfill the EAPF fiduciary duty, officers must review each shareholder resolution on a case by case basis, but with the assumption of the following

- We will generally support resolution calling for better disclosure to shareholders, as long as we feel the disclosure is appropriate to the financial risks and not excessively burdensome for the company.
- We will generally support calls for disclosure of corporate policies in specific areas, and the adoption of best practice.
- We will generally support resolutions calling for companies to review and report on new projects or new business areas with high environmental impact, or to assess the strategic and financial risks that environmental issues may create.

- Where management has addressed or promised to address much of the subject of a resolution, we will continue to support the resolution, as we will take the resolution “as is” and not as a referendum on management.

This guidance document details our voting guidance on specific environmental issues and how these are applied to standard resolutions such as voting on the annual report and accounts.

Specific guidelines on environmental resolutions

Policies and reporting on sustainability, climate protection, and other environmental risks

We believe policies regarding sustainability, climate change, green house gas emissions and other specific environmental financially material risks are an effective means of communicating with shareholders and the investment community as the company’s commitment to managing such issues protecting it from direct and indirect financial impacts. To maintain credibility with shareholders and the investment community we believe such policies need to be backed up with quantifiable targets (where appropriate) and regular reporting, ideally in the annual report and accounts.

Specifically we support

- quantified environmental disclosures on all environmentally material issues in the annual report and accounts.
- mandatory reporting of quantified carbon and carbon equivalent emissions report in statutory annual report and accounts.
- narrative disclosures pertaining to company’s climate change / environmental policy, strategy, performance against targets, complemented with more detailed disclosures via web-sites, carbon specific or CSR reports.
- the production of sustainability reports, with key ESG performance indicators (KPIs)
- for UK companies, we support the implementation of EU and UK regulations, and guidance on environmental reporting.

Other business policies and procedures with potential environmental impacts

As a long term investor we support enlightened business leadership and we look to Board’s and company directors to develop and or maintain a high level of environmental leadership in respect of the products and services they market to maintain or increase their market share and financial returns.

We support resolutions requiring the regular review of business policies and procedures in relation to the environmental costs relating to raw material use, production, transportation, usage and disposal (i.e. all aspect of a product’s lifecycle) that will protect and enhance long term shareholder value.

Chemicals cost/ manufacturing/ products/disposal

The use of harmful chemicals in manufacturing, products and their disposal incurs costs, regulatory restrictions and supplier and public scrutiny.

We support resolutions requiring companies to regularly review the use of harmful chemicals used in manufacturing process, products and disposal with the view of phased elimination where practical alternatives are available.

Energy /fuel efficiency

Traditional forms of energy are becoming increasingly expensive and alternative fuels more competitive so that the efficient use of energy can be financially beneficial to a company.

We support the requirement for company's to regularly review: energy use; energy/fuel efficiency and alternative sources of power with the view of reducing environmental impacts of energy generation and consumption.

Security relating to nuclear power & waste / chemical storage

Security relating to nuclear power, waste and chemical storage incurs costs, regulatory restrictions and supplier and public scrutiny.

We support the corporate review of its procedures regarding security, particularly if an incident or regulatory breaches have occurred. However the EAPF believes it the role of nuclear regulators (rather than shareholders) to ensure themselves as to the efficacy of the procedures, practices and any corrective actions.

We do not support the disclosure of a company's security procedures and practices as we believe this is not in the interests of the shareholders or general public as it may be counter productive in providing information to those who would use it for illegal purposes or to affect national security.

Nuclear power

We neither advocate or object to energy generation from nuclear power, but believe in the application of stringent safeguards, including board level oversight and an effective working relationship with the national regulator.

We will support the application of stringent safeguards, including board level oversight and an effective working relationship with national regulators, but will abstain from resolutions that merely require the closure of a power station where insufficient evidence provided to support the proponents that there is a risk to shareholder return.

Timber procurement

As certification is an active, on-going process, and a supplier can lose their certification at any time if they fail an audit / inspection or are suspected of misconduct, this may have significant financial impacts on the company directly as a supplier or in its supply chain. The Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification Schemes (PEFC), Canadian Standard Association (CSA) and Sustainable Forest Initiative (SFI) all satisfy UK Government (and Environment Agency) sustainability requirements company's should regularly review their suppliers' certification status.

We support the requirement for companies to review timber procurement policy, its supply chain, particularly with respect to a suppliers' certification status, particularly where the implementation of company's timber policy has been called into question. Depending on the company, its policies and risks in this area we may choose to vote against or abstain if the wording of the resolution imposes requirements, beyond that detailed above.

Exploitation of 'unconventional' sources of hydrocarbons

Shale gas, oil sands (tar sands), oil shale, tight gas and coal bed methane are all defined as 'unconventional' by the IEA. Unconventional sources are typically harder to access than traditional oil and gas reserves, requiring additional preparation or treatment during the drilling phase, and potentially extra processing in the refining phase. The complexity of extraction creates additional risks and the business case for exploration can often depend on the volatility of the price of oil, regulatory (national and federal)

response to climate change, carbon pricing, land remediation, clean-up costs and costs of waste and waste water disposal.

We support resolutions requiring transparency in the business cases for such exploitation of 'unconventional' sources to ensure all 'risks', strategic, financial, operational, environmental and social have been considered in order to protect long term shareholder value.

Environmental impact of operations in sensitive areas - drilling/ mining/ construction including building in flood plains.

Regulatory control, insurance and potential cost of clean-up and restoration in environmental sensitive areas increases the financial risks of operating in these areas.

We support production of reports to fully examine the environmental and community impact of drilling, mining and extracting materials from sensitive areas. Also construction in sensitive areas e.g. floods plains which can lead to increased insurance risks and costs. These reports are essential to minimise environmental damage, maintain good community relations and manage the risks to the reputation and shareholder value of the company.

Waste & recycling

Waste from extraction and processing of raw materials, waste from manufacturing and products use and their disposal incurs increasing costs, regulatory restrictions and supplier and public scrutiny.

We support the regular management review and reporting of all waste streams and the requirement to explore means to reduce, re-use and recycle where practicable to encourage greater resource efficiency.

GMO's

The EAPF has no view on whether GM technology is a good or bad thing per se. We believe that a precautionary approach should be taken, as enshrined in existing legislation.

We support the requirement for further investigative reports in to the regulatory, reputational, environmental and health risks of using GMOs, where the company has not clearly demonstrated a commitment to this area and to the review of GMO policies and procedures where a company failed to adequately co-operated with the regulator or has breached any regulatory requirement.

We may chose to abstain or vote against resolutions requiring the removal or cessation of use of GMO products, ingredients or seeds where the company has co-operated with the regulator or not breached any regulatory requirement or resolutions requiring GMO labeling, as it is anticipated that companies would merely label products with 'may contain GMO's' which would be of little use to the consumer.

Bio-diversity

The Economics of Ecosystems and Biodiversity (TEEB) programme aims to the highlight economic dimensions of biodiversity and ecosystem services – the benefits they deliver, the costs of their loss and degradation, and ultimately their financial value to human well-being. TEEB shows us the incredible costs of losing biodiversity worldwide. For example, it has been demonstrated that safeguarding the biodiversity of the rivers decreases the cost of water treatment.

We support resolutions protecting the bio-diversity and/or the protection of the natural and farmed habitat.

Access to water/ water rights/ right to water

The demand for water is expected to outstrip supply by 40% by 2030. In its latest report Water Disclosure project, half the companies considered water as a current or very imminent business risk with 40% of the companies stating that it was already impacting on the company, causing disruption through drought, flooding or water quality.

We support the production of reports to fully examine the environmental and community impact of water extraction, use, the right to water and water quality. The EAPF believes these reports to be essential to minimise environmental damage, maintain good community relations and manage the risks to the reputation and financial value of the company.

Specific guidelines on standard resolutions

Annual Report and Accounts

We will consider voting against receiving the report and accounts where we regard the level of environmental disclosure to be inadequate to evaluate the environmental risks (both operation and strategic) faced by the company, which may pose a financial risk to shareholders. In making this assessment we will have regard to (but not be bound by) standards of reporting by comparable companies either in the same sector or facing similar environmental issues.

Appointment of Chairman, CEO other directors

We believe that the Chairman, CEO other directors own attitudes and commitment shape the culture within and organization which has impacts on the company's strategic, financial and operational performance.

We will consider voting against appointment of Chairman, CEO other directors where a company has a history of being involved in major environmental incidents, or a major incident in the last year, and where the corporate response to the damage caused has been viewed to inadequate by affected parties and independent investigations.

Remuneration report and links to environmental performance

We believe that where a company has significant environmental impacts that have financial implications it should be reflected in remuneration packages in order to align the interests of the company employees and their shareholders.

We will consider voting against receiving the remuneration report where:

- a company has a history of major environmental incidents, or a major incident in the last year and the report proposes any increase in pay for directors employed at the time of the incident.
- a company has significant environmental impacts and the remuneration package does not contain adequate links to environmental performance and management of environmental risks. Links should be to objective measures and not to subjective assessments such as media rankings.

Agreed by the Environment Agency Pension Committee, 17 March, 2011