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STRATHCLYDE PENSION FUND

Statement of compliance with the U.K. Stewardship Code for Institutional Investors.

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance through the UK Corporate Governance Code. The UK Stewardship Code, published in July 2010 by the FRC calls for greater collective action among shareholders. As a consequence of the financial crisis pension funds are now expected to observe this code or explain why they do not and a disclosure to this effect will be a regulatory requirement for asset managers. As a consequence, greater attention will be paid to the position of pension funds as corporate owners and their effectiveness in calling companies to account for their actions.

Principle 1 - Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Strathclyde Pension Fund has a long-standing commitment to the values of stewardship as part of its fiduciary duty to its stakeholders and this is one of its key Investment Principles. The Fund is a Responsible Investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

Glasgow City Council is the administering authority for Strathclyde Pension Fund. The council delegates its responsibility to the Strathclyde Pension Fund Committee which in turn entrusts the management of the Fund's assets to appointed external investment managers. The Fund's Investment Advisory Panel develops recommendations for the Committee to make the formal decisions and also carries out much of the investment monitoring on the Committee's behalf. The Fund's appointed custodian is responsible for the safe-keeping of its assets.

The role of investment managers is outlined in the [Statement of Investment Principles](#) and the Fund encourages its investment managers to publish a Statement of Compliance of the UK Stewardship Code.

In practice the Fund applies the Code through:-

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of Environmental, Social and Governance (ESG) issues into their investment analysis and to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement and collaboration with other investors including the Local Authority Pension Fund Forum, ShareAction, IIGCC and other ad hoc alliances.

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In addition to the UK Stewardship Code, Strathclyde Pension Fund also adopted the Principles of Responsible Investment in 2008 to further demonstrate its commitment to responsible investment. Strathclyde Pension Fund adopted the Principles as the framework for its responsible investment policy and the Fund's Statement of Investment Principles was updated to reflect this. This is publicly disclosed on the fund's website within the [Statement of Investment Principles](#).

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Strathclyde Pension Fund stipulates that external investment managers should take reasonable steps to manage conflicts of interest in relation to stewardship by incorporating conflicts of interest clause into the Investment Management Agreements for each manager. Investment managers are expected to maintain and publicly disclose their conflicts of interest policy.

Glasgow City Council's [Code of Conduct for Employees](#) is publicly available on the Council's website and is applicable to all Strathclyde Pension fund employees as the administering authority for the fund. Section 2.3.7 relates to conflicts of interest and covers conflicts arising by virtue of officers' personal or family interests and/or loyalties, be they financial or non-financial, as well as officers who sit on the boards of external bodies, or who are involved with them. Senior Council officers are required to complete annual Declarations of Interest and these inform the Register of Interests.

Guidance on declarations of interest is provided to elected members of the Committee by section 5 of [the Councillors' Code of Conduct](#). The individual Registers of Interest for Strathclyde Pension Fund elected members are publicly available on the Glasgow City Council website.

Furthermore, the Strathclyde Pension Fund Committee and Investment Advisory Panel members are required to make any declarations of interest prior to meetings.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed investment managers. The Fund requires its managers to monitor investee companies and engage with company management where Environmental, Social or Governance (ESG) practices fall short of best practice. All managers are required to report back quarterly on any activity undertaken. The Fund will not appoint investment managers who are unable to demonstrate capabilities in this area.

The Fund has retained the services of GES, a Swedish based responsible investment engagement specialist, to advance the Fund's engagement with portfolio companies, to steward collaboration between the Fund's investment managers and to facilitate co-operation with other investors.

At the core of the GES mandate is the GES Global Ethical Standard alert service which is a systematic screening of international companies regarding their compliance with international conventions and guidelines on environment, human

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rights and corruption. The GES alert service covers 100% of the major investable equity indexes including the FTSE and MSCI developed and emerging markets. The service provides a weekly incident briefing to the Fund following screening of portfolio holdings provided by the Fund's global custodian encompassing approximately 90% of the Funds segregated global equity holdings.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

The Fund continues to work with its investment managers to enhance their engagement and reporting, with discussions aimed at supporting the Fund's adoption of the Principles of Responsible Investment. In addition, officers of the Fund have been able to engage with managers regarding publicly reported events at certain portfolio companies that raise ethical, environmental or governance concerns.

The Fund subscribes to the GES Engagement Forum which is a collaborative tool for investors to interact upon companies' compliance with international norms on ESG issues. GES reports through a web-based application to which the Fund and by briefings through in-person meetings and progress reports. The Engagement Forum follows the GES dialogue with companies and coordinates engagement activities among clients and with other investors / investor groups.

Such engagements are detailed in the Fund's Responsible Investment report and are publicly available at [Strathclyde Pension Fund Committee papers](#).

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

As a signatory to the Principles of Responsible Investment, Strathclyde Pension Fund participates in collaborative initiatives with other like-minded signatories, which seek to improve company behaviour, policies or systemic conditions.

It is expected that all external managers will actively promote the acceptance and implementation of the Principles within their own industry. Their activity is included in the quarterly Responsible Investment Report to Committee and is publicly available at [Strathclyde Pension Fund Committee papers](#).

The GES service also provides investment manager engagement and co-ordination. GES works with the Fund's investment managers to ensure minimal impact on the investment process and to co-ordinate engagement strategies. GES provides engagement profile reports to the Fund detailing investment manager engagement performance and recommendations for improvement.

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The Fund became a signatory to the Carbon Disclosure Project (CDP) Information Request in 2009. The information gathered by CDP forms the largest database of corporate climate change information in the world. In 2011 the Fund became a founding signatory investor for CDP Carbon Action. Carbon Action is a CDP initiative which works with investors and corporations to encourage companies to take rational action to reduce their GHG emissions by making investments in emissions reduction activities that have a satisfactory financial return.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund ensures that the votes attaching to its holdings in all UK and overseas quoted companies are exercised whenever practical. The Fund has instructed its investment managers to vote in accordance with their own policies and practices and to take account of the Combined Code on Corporate Governance. Managers are also expected to take account of current best practice including the Institutional Shareholders Committee's 2002 Statement on the Responsibilities of Institutional Shareholders and Agents.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

Managers are instructed to provide a quarterly report on Corporate Governance activity. Investment Manager Responsible Investment and Corporate Governance reports form the basis of the Fund's Responsible Investment report which is considered each quarter by the Strathclyde Pension Fund Committee and which is publicly available at [Strathclyde Pension Fund Committee papers](#).

Full disclosure of voting activity is provided quarterly on the Funds' website [Voting reports](#). This includes both the total number of company meetings where the Fund has voted and details of individual companies where we have voted against company management.

Additionally an overview of responsible investment activities and voting activity during the year is set out in the [Annual Report and Financial Statements](#) and in a [brochure](#) about how we invest responsibly.