

STATEMENT OF COMPLIANCE WITH UK STEWARDSHIP CODE

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The Funds' Statement of Compliance with the UK Stewardship Code is presented below:

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

We acknowledge our role as an asset owner under the UK Stewardship Code and seek to hold to account our fund managers and service providers in respect of their commitments to the Code.

In practice, our policy is to apply the Code through a) the appointment of Hermes Equity Ownership Services (EOS); b) membership of the Local Authority Pension Fund Forum (LAPFF); c) the work of Baillie Gifford, an external investment manager; and d) the work of the internal investment team.

We believe that Hermes EOS enables us to provide the highest standards of stewardship on behalf of the beneficiaries of the Funds through their monitoring of shareholdings, so that we can fulfil our fiduciary responsibilities as long-term shareholders.

- Hermes EOS has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by Hermes EOS on our behalf are guided by the [Hermes EOS Corporate Governance Principles](#).
- Through Hermes EOS, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future, and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

Through our active membership of LAPFF, we keep informed of potential issues of concern at both individual companies and across the market, which leads to collaborative engagements in which the Funds sometimes participate. An elected member of the Pensions Committee has been a member of the Executive for several years.

Baillie Gifford takes direct responsibility for stewardship issues, including voting and engagement, in the funds which it manages on our behalf. Baillie Gifford has published its [own Statement of Compliance with the Stewardship code](#).

The internal investment team integrates environmental, social and governance (ESG) issues into its decision making, in line with the Principles for Responsible Investment to which the Funds are a signatory. The internal team also engages directly with companies in which the Funds invest.

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.

The Funds efforts to manage its potential conflicts of interest can be summarised below:

- We are supported in effectively managing conflicts of interest in relation to our stewardship work by Hermes EOS. Hermes EOS explains how it manages conflicts of interest on our behalf in its [Steward conflicts of interest policy document](#).
- We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.
- In respect of conflicts of interest within the Funds, Pensions Committee members are required to make declarations of interest prior to Committee meetings.
- Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for monitoring our equity holdings is delegated to Hermes EOS and Baillie Gifford:

- We expect them to monitor companies, intervene where necessary, and report back regularly on activity.
- Activity is reported on the Funds' website quarterly, including the number of company meetings at which the Funds have voted and how the Funds have voted.

LAPFF also monitors and engages with companies and provides an 'Alerts' service, which highlights concerns over corporate governance issues.

The internal investment management team also monitors its investee companies regularly, on an ongoing basis. It adheres to the Funds' compliance policy on insider information.

In order to foster a positive working relationship with an individual company and to build trust, Hermes EOS may be willing to become an "insider". In such circumstances, the relevant information will not be passed to the internal team until after it is no longer inside information.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability. We expect Hermes EOS and Baillie Gifford to disclose their guidelines for such activities in their own statements of adherence to the Code.
- The internal team also monitors investee companies and escalates engagement activity directly with investee companies as required.
- We may also propose escalation of activity through the Local Authority Pension Fund Forum.

- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

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

We seek to work collaboratively with other institutional shareholders to maximise the influence that we can have on individual companies. We do this through:

- the appointment of Hermes EOS, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. Hermes EOS represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- membership of the Local Authority Pension Fund Forum, which is a collaborative effort of approximately 70 local authority pension funds. It engages and lobbies for positive changes on environmental, social and governance issues on behalf of its members. See <http://www.lapfforum.org/> for more details.
- being a signatory of the PRI in our own right. See <https://www.unpri.org/> for more details.
- being a signatory (since 2009) to the Carbon Disclosure Project (CDP) Information Request. The information gathered by CDP forms the largest database of corporate climate change information in the world. See <https://www.cdp.net/en> for more details.

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

The emphasis of our voting policy is to promote best practice.

- We seek to vote on all shares held. The Funds have an active stock lending programme but consider recalling stock from a loan where it appears that this would be an appropriate way to safeguard the Funds' financial interests.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to Baillie Gifford for the funds they manage. The manager's voting policies can be found at the website mentioned above.
- For all other mandates, Hermes EOS votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. Hermes EOS informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are Hermes EOS Regional Corporate Governance policies, which can be found in the following link:

<https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/>

- We disclose our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised. See http://www.edinburgh.gov.uk/lpf1/info/77/voting_and_engagement_record for full details.

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

We do report on our stewardship and voting activities:

- We report annually on stewardship and voting activity in the Funds' annual report and accounts and quarterly on our website.
- We also report annually on stewardship and voting activity directly to the Pensions Committee.

We reviewed this Statement of Compliance with the UK Stewardship Code in December 2018. We will review the Statement annually.