

Financial Reporting Council Stewardship Code Statement

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

The Somerset County Council Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers, its specialist voting advisor and through membership of the Local Authority Pension Fund Forum. The fund believes that it is better to utilise these third parties to undertake its stewardship activities as they have significantly greater experience and resources with which to research stewardship issues and engage with companies.

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 fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. With respect to those equity managers whose own shares fall within the scope of their mandate each has an explicit policy not to invest in their own company's, or eventual parent's, shares.

In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings and a related parties disclosure is made annually in the fund's annual report.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. For the in-house managed fund we would expect PIRC, as our specialist voting advisor to monitor companies and engage with them prior to advising us on voting. Reports from our asset managers on voting and engagement activity are received by the fund on a quarterly basis and are augmented by quarterly meetings with officers and regular discussions.

In addition the fund receives an 'Alerts' service from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies.

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers and PIRC, 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.

However on occasion, the fund may itself choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum.

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

The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

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

In respect of shareholder voting, the fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and is undertaken by officers for the in-house managed fund following voting advice from PIRC. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues are often discussed with fund managers as they arise.

The fund discloses a summary of voting activity of each of the segregated equity funds twice a year as a committee paper, all of the committee papers are published on the County Council's website. The fund is minded to disclose in full voting activity at a given company meeting on request. A number of our asset managers and PIRC publish their voting activity (advice).

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

As noted above under principle 6 fund reports semi-annually on voting and stewardship activity through a report to the Pensions Committee. This includes both fund-specific information and an overview of activity undertaken through the Local Authority Pension Fund Forum.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
June 2017**