

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

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

The Avon Pension Fund takes its responsibilities as a shareholder seriously and believes that by discharging Stewardship duties it can enhance and protect value to the Fund. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

The Fund's policy in this area is set out in its [Statement of Investment Principles \(SIP\)](#) and [Responsible Investment Policy](#) which highlights:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Myners Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund seeks to apply this code across all portfolios.

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. 12 of 15 managers have published a statement of commitment to the Stewardship Code, an additional 3 since 2013. Links to manager statements are included in the appendices to this statement. The remaining three managers make investments in infrastructure, overseas property and currency hedging where the opportunity for stewardship activity is limited. 13 managers are signatories to the UK PRI, including the Infrastructure and property managers who are also closely aligned to the UN Global Compact.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meetings where practical.

Further details on how the Fund monitors the activity of external managers on an ongoing basis can be found in its response to Principle 3. Its monitoring of Voting can be found in its response to Principle 6.

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

The Fund considers that conflicts of interest in relation to stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

Internal sources for conflicts of interest

Committee members and Officers may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential for the stewardship of any local investments made by the Pension Fund that could be directed to benefit wider Council policy.

The Fund seeks to address these in the following way:

Pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings in line with the council's code of conduct and interest rules. This is a standing item on every committee agenda and declarations are made public. Annually declarations should be made to the Monitoring Officer.

The Section 151 Officer has delegated responsibility of the Fund to the Head of the Pensions to separate decisions of the Council as Administering Authority and Pensions. This ensures that any stewardship decisions are made in the best interest of the Funds members and are not conflicted by the employer interests of the Administering Authority.

External sources for conflicts of interest

Third party advisors and Investment Managers tasked with representing shareholder interests may perform roles other than which they are employed for and to that extent conflicts may arise.

The Fund seeks to address these in the following way:

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Transactions should be conducted in the best interests of the client and effected on terms no less favourable to the client than if the conflict of interest did not exist. The need to avoid conflicts of interest is also highlighted in our Investment Management Agreements (IMAs) and contracts with external parties.

All investment managers have conflicts of interest policies in place, which most review annually. Several managers have Conflict of Interest Boards to monitor and investigate conflicts of interest. The third party proxy voters utilised by the Funds managers have Conflicts of Interest Boards and policies in place. Investment Managers annually review their providers voting policy to ensure it remains consistent to their approach to stewardship and that of its clients.

Where the Fund employs the expertise from Advisors and Service providers, conflicts of interest is included within the contracts and service level agreements.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund understands its Stewardship responsibilities and engages with its Investment managers via the following methods:

- Written correspondence
- Phone Calls
- One-to-one meetings

The Fund engages for the following reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of the Fund's investments in order to meet its Fiduciary duty
- To monitor developments in ESG, business strategy, financial performance and management within a company
- To enhance our analysis of risks and opportunities.

The Fund monitors its managers on a quarterly basis by looking at performance against a benchmark, developments, and the rating provided by its investment consultant. On an annual basis manager performance is included in the [Annual Report](#) and as part of the [Responsible Investment Report](#). Annually Internal control reports of all managers and custodians are reviewed.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings. The engagement activity is summarised in the Fund's Annual Responsible Investment Report.

The Fund ensures that it does not become an insider to any trading activity. The policies of the investment managers towards becoming an insider can be found in their Stewardship Statements.

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, including the escalation of engagement when necessary. Escalation by the Fund's managers may include:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
- Promotion of UNPRI principles
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Case studies of escalated intervention and outcome will be included in the Fund's Responsible Investment report from 2016 onwards.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum. The Fund analyses its own portfolio looking at ESG risks to shareholder value and advises managers of its focus each year. Any concerns with management are escalated to the Investment Panel agenda and where appropriate investment managers will be invited to panel meetings to discuss concerns.

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 achieves 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. Each year Committee members put themselves forward to be a representative at LAPFF meetings together with Officers, contributing towards setting the engagement focus for the year, and reporting back to the Committee. Examples of collaboration in the past include supporting shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.

In addition to the above collaboration Officers meet with other pension Funds, asset managers and other organisations to discuss developments in the market. As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

The Fund's managers work collaboratively with other parties and provide details in their Responsible Investment or Stewardship reports. This collaboration is summarised in the Fund's Responsible Investment Report.

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

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

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide detailed monitoring analysis of voting activity; this is

reported on an annual basis as part of the [Responsible Investment Report](#). Aggregate voting records of managers are reported to the Committee at the quarterly meeting.

Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio and comparing the voting activity of the investment managers against aggregate voting by shareholders. The activity is benchmarked against Manifests view of best practice

Table 1: Summary of Managers vote reporting and explanation where not fully published.

Manager	Report Type	Link
Blackrock	Votes	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	Votes	https://vds.issgovernance.com/vds/#/MTcy/
Invesco	Overview	https://www.invescooperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/ Invesco believes that automatic public disclosure of its voting records may have a detrimental effect on its ability to manage its portfolios and ultimately would not be in the best interest of all clients.
JP Morgan	Votes	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	Votes	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/Voting-Records
Pyrford	Not available	We do not publicly disclose voting records as we believe that information to be confidential to our clients.
Royal London	Votes	http://www.rlam-voting.co.uk/voting/
Schroders	Votes	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/
Standard Life	Votes	http://www.standardlifeinvestments.com/governance-and-stewardship/what-is-corporate-governance/our-voting-records.html
State Street	Votes	https://www.ssga.com/eu/gb/pension-investor/en/investment-goals/environmental-social-governance-esg/vote-summary-report-2015.html

TT	Not available	Does not publicly disclose voting records, as it considers that that information belongs to the clients on whose behalf it has voted and not the general public.
Unigestion	Not available	Provided to clients on request.

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

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

The Fund reports on stewardship and voting activity in its annual [Responsible Investment Report](#). The report includes details of investment manager activity, voting analysis, LAPFF alert analysis, engagement and collaboration. Case studies will also be incorporated in the report from 2016 onwards.

The Fund also annually reviews and updates its SIP, which sets out the Fund's approach to responsible investing and assesses compliance with governance best practice. Periodically the Fund also reviews its Responsible Investment policy. The engagement activity undertaken by LAPFF is reported to the Committee on a quarterly basis. The Fund's investment managers provide a mixture of annual, bi-annual and quarterly reports detailing their activities for the year; these are summarised in the Responsible Investment Report.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers and reports its findings to the committee.

For approval by Committee on 23rd September 2016

Manager Stewardship Code Statements

Manager	Link
Blackrock	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	https://www.giml.co.uk/legal-notice.html
Invesco	https://www.invescoperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/
JP Morgan	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/UK-Stewardship-Code
Pyrford	https://www.bmo.com/pyrford/responsible-investment/content/uk-stewardship-code
Royal London	https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Stewardship%20Code%20StatementNovember%202014.pdf
Schroder	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/uk-stewardship-code/
Standard Life	http://www.standardlifeinvestments.com/governance_and_stewardship/the_uk_stewardship_code/index.html
State Street	https://www.ssga.com/investment-topics/environmental-social-governance/2015/Statement-on-the-UK-Stewardship-Code.pdf
TT	http://www.ttint.com/about-us/uk-stewardship-code.ashx
Unigestion	http://www.unigestion.com/wp-content/uploads/2014/10/Stewardship-Code-Policy.pdf

N.B. Signatories from time to time will update their policies. In the instance that the above links are no longer active the most recently submitted statements can be located on the FRC website:

<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx>