Appendix 1

Avon Pension Fund

Responsible Investment Report: Policy and Activities 2013/14

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor.

The annual Responsible Investment report summarises the activities undertaken during the year by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The report comprises the following sections:

Executive Summary

As a responsible investor, the Fund sought to manage Responsible Investment risks through the following activity during the year:

- **Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation and implementation of the new investment strategy for the new Diversified Growth Fund and Emerging Markets Equity mandates and appointment decisions**

- **Promoted Responsible Investment / Environmental, Social and Governance by:**
    - **Following through with issues identified last year by the Fund's Committee such as focusing on remuneration and board diversity**
    - **Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate**
    - **Reviewing whether engagement activity of managers was in line with their stated policies**
    - **Engaging directly with the Fund's investment managers to:**
        - **Promote board diversity for the 2014 proxy season**
        - **Obtain feedback from investment managers on the topic of remuneration voting policies and engagement activity**

- **Increased the Fund's participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks.**

Section 1 - Avon Pension Fund, Responsible Investment Policy

This policy was agreed by the Avon Pension Fund's Committee in June 2012. The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

The policy sets out how the Fund will implement these beliefs within its strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

- The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes. This is evidenced by evaluating the following as part of the strategic investment review process:
    - The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing
    - Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value.
    - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that exclude or positively select investments could be appropriate for particular mandates.
- The Fund requires its active investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles.
- When appointing external investment managers, the Fund:

    - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.
    - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
    - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.
- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets.
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role.
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible.
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives.
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles.
- The Fund encourages its external investment managers to become UNPRI signatories.
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.
- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

Section 2 - Responsible Investing Activity in 2013/14

2.1 Investment Strategy

In March 2013 the Fund adopted a new Investment Strategy. The 10% allocation to Diversified Growth Funds (DGFs) and the additional 5% allocation to Emerging Market Equities were implemented by March 2014.

The following tables summarises the Fund's evaluation of RI characteristics of these asset classes:

Asset Class	Can ESG Risks be Managed?	Notes
Emerging Market Equities	Yes	In Emerging Markets there is greater risk of issues around corruption and human rights at the government level and the regulatory and legal framework will often not be as developed or robust as for developed markets. In addition, in many markets, the limited rights of minority shareholders mean that investors have less ability to influence corporate behaviour. As a consequence, the potential risk of poor ESG practice amongst local companies based in the emerging economies is higher than for multinational companies operating in these countries - multinational companies have to adhere to the standards of best practice in their home country. In Emerging Market Equities ESG risks can be managed through the investment decisions of the manager in terms of the individual stocks held within the portfolio.
Diversified Growth Funds (DGF)	Limited	There is less scope to reflect the Fund's ESG policy through a DGF investment compared to equity mandates. DGF managers hold a variety of assets across different asset classes, so the extent to which ESG risks can be managed will be dependent on the types of assets held.

In the tender for each mandate the respondents were required to demonstrate how they incorporate ESG issues and risks into their investment decision making process which was evaluated as part of the assessment of each tender. This enabled the Fund to understand each manager's approach to ESG risk, how it would be managed and the level of risks the Fund would be exposed to.

Although the scope for reflecting the Fund's ESG policy within the DGF search was limited, the tender questionnaire assessed each manager on the following:

- Do they have a team responsible for corporate governance and responsible investing?
- Is the organisation a signatory to UNPRI?

- To what extent are the principles of UNPRI reflected in the product offered?

As there is greater scope to assess how each Emerging Market Equity manager incorporated ESG into their process in addition to the 3 general questions above the tenderers were also assessed on the following:

- To explain their views on shareholder activism and whether they seek to influence the underlying structure of the business practices of individual stocks held in portfolio
- To provide voting analysis over the preceding 12 month period in terms of proportion of votes cast for, against and where abstained
- Do they regularly vote on all shares held within the portfolio?
- To provide examples of where voted against management and explain why
- To what extent do they use external voting services
- Are they a signatory to the UK FRC stewardship code? And what engagement and support do they have with the UNPRI

2.2 Investment Managers Activity

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed. In addition the Fund also seeks to influence managers where appropriate and to ensure they take ESG risks into account.

All managers provided a statement on how they take ESG factors into account in their investment decision making processes. These can be found in an appendix to the SIP.

Investment Panel Activity

During the year the main focus of the Panel was the implementation of the new investment structure. As a result, fewer meetings were held with investment managers. Specific RI issues were raised by the Fund with the following investment managers:

- Royal London (UK Corporate Bond mandate) – Discussed scope and benefits of applying ESG/SRI analysis beyond equities into corporate bonds and credit analysis. The Panel recognised the recent developments in such analysis and agreed to monitor the development of products in this area as experience and size of funds continues to evolve.
- Schroder (Global Equity mandate) – Following a change in the investment team, Schroder confirmed that their thematic approach (climate change, super cycle and demographics) is still embedded into the investment process and are used to inform the investment decisions.

Manager Updates

- Invesco Perpetual and Unigestion gained UNPRI signatory status during the year.

- Jupiter restructured their environmental, social and governance teams to ensure these teams are fully incorporated into the investment decision making process.
- Jupiter updated their compliance with the UK Stewardship Code in January 2014
- Jupiter implemented a Stewardship Committee and Sustainability Review Committee to further align stewardship and investment considerations. Jupiter now subject their stewardship activities to independent audit assurance.
- Blackrock as part of the Investor Stewardship Working Group aims to influence the debate on the development of stewardship
- Invesco uses an engagement overlay service to monitor, focus and prioritise engagement activity
- SSgA uses multiple ESG screens to identify companies for engagement. They group engagements into 3 categories: reactive, recurring and active. During 2013 SSgA carried out over 375 active engagements which was largely focused on compensation (42%) and governance (39%).
- Blackrock and SSgA responded to the Call for Evidence on the future structure of the Local Government Pension Scheme (LGPS)
- Baring Asset Management, Jupiter and SSgA all participated in the TUC fund manager voting survey for 2013
- RLAM updated their approach to the UK Stewardship code and produced an annual review of sustainable investing.

The extent to which managers undertake engagement with companies depends largely upon their investment approach. The Panel and Officers focus on gaining assurance that managers are undertaking engagement activity in line with their policy and test this at meetings through specific questioning on voting and engagement.

TT and Genesis do not have specific RI engagement programmes but as active investors who put a lot of value in quality of management, they are meeting management continually and where RI issues are impacting performance these are raised with management as part of the investment process.

The Fund encourages managers to actively participate in industry collaborative bodies where appropriate.

Voting

Analysis of the proxy voting activity carried out by investment managers on the Fund’s behalf was undertaken by Manifest Information Services. The objective of the analysis is to provide greater understanding of:

- Voting activity undertaken on behalf of the Fund
- Wide voting issues
- Governance standards at companies
- How the Fund’s investment managers use voting rights

Manifest’s report is included in the Appendix. The key points from the 2013 report were as follows:

- It is the 3rd annual report from Manifest (2nd year where a full year of data was available for analysis)The Fund's managers are again marginally more active in expressing concerns through voting than the average shareholder, opposing management on 5.2% of resolutions.
- The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, Jupiter incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore it should be expected that there is less reason to vote against management.
- As in 2012 the most contentious and material issues were Board Governance, Independence, Diversity and Remuneration.
- Focus for coming year should remain on Remuneration policy as future pay policy is being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review and a second binding vote on proposed pay policy. In addition board diversity and audit independence are expected to be key issues in 2014.
- Major developments during the year included the new Director's Remuneration Report Regulations in the UK, changes to the UK Stock Exchange Rules, the UK Takeover Code, the issue of Gender Diversity on UK Boards and the EU Shareholders Rights Directive Part II.

The Fund monitored voting activity and undertook further analysis of the managers' voting activity on remuneration at various times during the year.

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 17 companies for which LAPFF issued a voting alert during the year; the table is split across 7 issue categories. Note that some companies appear across multiple categories.

Joint chair & CEO roles	Election of Chair / CEO / Director	Approve / receive annual report	Approve remuneration report / compensation / LTIP	Greenhouse gas emissions	Eliminate dual share class structure	Issue of equity convertible note's
Carnival	Barclays	Barclays	AstraZeneca	Exxon Mobil	Twenty-First Century Fox	RBS
Comcast	Carnival	Carnival	Aviva			
JPMorgan	Comcast	Marks & Spencer	BAE Systems			
	Exxon Mobil	National Express	Barclays			
	Freeport McMoran	RBS	Carnival			
	JPMorgan		EasyJet			
	Marks & Spencer		Prudential			
	Twenty-First Century Fox		SABMiller			
			WPP			

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions.

The below table shows as an example votes cast from 4 of the Fund's equity managers:

	Resolution	LAPFF	Management Recommendation	Manager 1	Manager 2	Manager 3	Manager 4
Barclays	Receive annual report	AGAINST	FOR	FOR	FOR	ABSTAIN	
	Approve remuneration report	ABSTAIN	FOR	FOR	AGAINST	FOR	
	Chairman election	FOR	FOR	FOR	FOR	FOR	
Prudential	Approve remuneration report	AGAINST	FOR	FOR	AGAINST	FOR	FOR
	Approve long-term incentive plan	AGAINST	FOR	FOR	FOR	AGAINST	ABSTAIN
Twenty-First Century Fox	Re-elect 2 non-exec directors	FOR	FOR	AGAINST			
	Appoint independent chair (shareholder proposal)	FOR	AGAINST	FOR			
	Eliminate dual share class capital structure (shareholder proposal)	FOR	AGAINST	FOR			

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

In the case of the Barclays remuneration report Manager 2 commented that despite engagement occurring over a period of time and an improving trend they highlighted an imbalance of rewards to management and the return to shareholders and therefore voted against the remuneration report. Manager 3 decided to abstain on the resolution to receive the annual report on the basis of disclosure under IFRS rules but acknowledged this is not an issue solely linked to Barclays. IFRS is discussed in more detail in the following section under LAPFF activity.

In the current AGM season similar concerns were again highlighted by shareholders on the topic of remuneration at Barclays. Manager 2 and 3 both voted against the Barclays remuneration report with Manager 2 commenting that further progress is needed to align group-wide compensation with shareholder interests.

For Prudential’s long-term incentive plan Manager 3 decided to vote against the incentive plan due to the concern over potential manipulation under IFRS rules in generating economic value used for incentive calculations. On the same resolution Manager 4 commented that they were supportive of a number of features that benefitted shareholders but were concerned over the failure to disclose performance targets attaching to half of each conditional long-term award until after the end of the 3 year performance period. In this instance abstention recognised the positive aspects of the resolution rather than a full vote against.

The case of Twenty-First Century Fox was interesting as it contained 2 shareholder proposals. Manager 1 voted in line with both LAPFF and the shareholder resolution as they believed investors would benefit from greater independent leadership in the boardroom and that the elimination of the dual share class was in the best long term interest of shareholders. Manager 1 decided to again vote against management and the re-election of 2 non-executive directors due to their failure to submit the company’s ‘poison pill’ (a means to discourage hostile takeovers) for shareholder vote.

The Fund’s overall voting across all investment managers can be seen within the below table.

Manager	**Resolutions Voted**	**Avon Managers Supported Management**	**General Shareholders Supported Management**
BlackRock	19,267	96.09%	95.14%
State Street	3,474	88.57%	92.44%
Jupiter	1,110	98.92%	97.47%
TT International	973	99.79%	95.68%
Invesco	854	85.13%	90.25%
Schroders	659	91.96%	94.19%
Genesis	198	85.35%	97.58%
Total	**26,535**	**94.83%**	**95.03%**

The above table highlights the following:

- In terms of overall patterns of voting behaviour, with the marginal exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general. Invesco and Genesis supported management noticeably less.
- Overall, Avon's managers continue to be marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2013 stood at just shy of 5% on average (compared to just over 4% in 2012 – a notable increase), Avon's fund managers opposed management on 5.2% of resolutions (up from 4.6% in 2012), which remains slightly above the institutional 'norm'.
- The high level of support with management from Jupiter reflects Jupiter's practice of incorporating a company's governance characteristics in their investment buying decision making, whereas BlackRock, for example, as a passive investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder, Invesco and Genesis portfolios in particular are global and therefore are exposed to a much higher potential variance of general governance standards.

The Manifest voting analysis also identifies some common themes:

- When considering the most common policy issues Manifest identified at the company meetings in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2013. This is explained in part by there being a slightly smaller number of resolutions in the data set.
- Many issues identified relate in some way to remuneration; whilst the highest number of them strictly speaking relate to governance (i.e. Remuneration Committee composition), the fact that so many other remuneration issues seem to have also increased in relative frequency underlines the importance of governance as a management issue. In this case, the inference is that there is a relationship between the level of independence of the remuneration committee and the level of control over incentive pay.
- Although the volume (in absolute terms) of the most common governance concerns that Manifest identified is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board (direct election) related considerations.
- The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners.
- Therefore, 6 of the top 8 concerns (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees.
- The second most common group of issues identified relate to remuneration.

The following conclusions and outlook can be drawn from the Manifest analysis:

- By and large corporate governance risk-related issues change over the long term, rather than due to short term pressures.
- We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may ‘lapse’ and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.
- What is more important is to understand how the fund’s managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this.
- 2013 has shown that both Avon’s fund managers and shareholders in general are gradually making more use of their voting rights to oppose management on governance issues.
- In terms of specific governance themes, the 2012 report identified the issue of lack of claw-back in remuneration policy arrangements; 2013 has shown that claw back is relatively much less of a concern. This is one example of how specific issues can be addressed successfully.
- It is anticipated that board diversity, audit independence and use of discretion in remuneration arrangements may prove to be prominent themes in 2014, which will be characterised by regulatory developments in the role and rights of shareholders over remuneration policy.

2.3 Engagement and Collaboration including LAPFF

Engagement and collaboration activity is undertaken by the Fund’s external investment managers (described in section 2.2) on the Fund’s behalf and directly by the Fund through its membership of LAPFF.

LAPFF Activity

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Committee members and Officers attended all four LAPFF business meetings in 2013/14. LAPFF activity and achievements are reported quarterly to Committee via LAPFF’s quarterly engagement report. Highlights this year are discussed below.

Of the activity undertaken by LAPFF during the year three key areas of focus to the Fund were:

- **Accounting standards** - International Financial Reporting Standards (IFRS) has been applied in the UK since 2005 and allows organisations to potentially overvalue assets by leaving liabilities and contingent liabilities off the balance sheet. IFRS disclosure differs from the standards set out within the UK Companies Act and can have an impact on any company although it is particular prevalent to UK banks. As a result there is an argument that IFRS does not give a ‘true and fair’ view of company accounts and has a distorting effect on the stated company profits which is often used to calculate remuneration/bonus packages for bank employees and senior executives.

LAPFF engaged with the Banks on this issue. They received responses from Lloyds, HSBC, Barclays and Standard Chartered on their views on the impact of the Bompas QC opinion on the legality of IFRS.

- **Executive pay** - Linked to the concerns over IFRS accounting standards is the issue of executive pay and whether pay is set at the correct level. There is a long-standing concern about ‘rewards for failure’, a term used to describe the following two points. Firstly, significant exit payments made to executives forced out of failing companies and secondly and more recently, where executives are highly rewarded despite poor company performance. There is a general concern in the UK that executive pay is (i) too high and has steadily increased in recent years despite flat or negative performance of companies, (ii) that it is too focused on short-term incentives and (iii) whether performance related pay is an effective means of motivation for management and whether performance related pay aligns these interests with shareholders.

  Based on such concerns there is an increased focus on identifying alternative strategies of remuneration which better aligns long-term sustainable returns and shareholder value. During the year new regulations came into force whereby voting resolutions on pay were split into two. The ‘policy vote’ will need to be reviewed and voted on at least every 3 years and will be a binding vote meaning that it requires 50% shareholder approval to pass. In addition new limits on bank bonuses were set by EU regulation which limit performance related bonuses to 100% of base salary or 200% with approval from 66% of shareholders.

  LAPFF launched its ‘Expectations for Executive Pay’ report and sent the document to the FTSE 350 Chairmen for consideration. LAPFF held meetings with Société Générale, WM Morrison Supermarkets, Legal & General, Standard Chartered, M&S and Burberry on executive pay.

- **Dual roles -** The UK Corporate Governance Code produced by the Financial Reporting Council (FRC) suggests under the principle of the division of responsibilities that the roles of the chairman and the chief executive should not be exercised by the same individual and furthermore that a chief executive should not go onto the role of chairman within the same company. Dual roles of this nature often leads to a potential conflict of interest and does not meet best practice as it leads to a lack of oversight and diminishes the independence of the board. An independent chairman creates an additional layer of independence from the board.
  LAPFF engaged with Comcast regarding the separation of chair and CEO and discussed the concentration of power held by the joint chair/chief executive at Société Generale.

Other areas of LAPFF activity include:

- **Employment standards** – Following the Bangladesh factory collapse LAPFF met a number of retailers regarding supplier employment standards. LAPFF also met with Sainsbury’s plc to enquire about the impact on its supply chain and sourcing practices. LAPFF also signed an investor statement calling for improvements to factory standards for workers’ safety.

- **Carbon** – As part of its on going engagement on Carbon, LAPFF discussed carbon management strategy with representatives of Rio Tinto and carbon emission management with National Grid. Following this National Grid subsequently improved its Carbon Disclosure Project (CDP) rating from a ‘C’ to ‘B’ through improved governance, strategy, target-setting and initiatives contributing to emission reductions. The CDP rating for Rio Tinto has also improved from a ‘C’ to a ‘B’ following LAPFF engagement. LAPFF engaged with Centrica regarding opportunities and risks in the UK shale gas market.
- **Governance** – LAPFF advocated in favour of mandatory audit re-tendering in a letter to the UK Competition Commission.
- Explored the impact of governance changes at Twenty-First Century Fox since the split from News Corporation and discussed the management of the on-going phone hacking scandal.
- **Board structures** – the UK Listing Authority amended the listing rules for independent directors in majority controlled companies to only be elected by non-majority members, in line with LAPFF’s position set out in its response to the 2012 consultation on the issue.
- Following collaborative engagement on board diversity, the London Stock Exchange appointed two women to the board.

Avon Pension Fund Activity

The Fund engaged with its investment managers on a number of topics throughout the year which the Fund’s committee had identified as particular areas of concern. Through this on-going communication the Fund’s managers are reminded of the importance that the Fund places on the engagement activities undertaken by them.

The activity was as follows:

a) The Fund questioned its equity managers about their remuneration voting policies and engagement activity. We asked each of the managers to provide their views on the following:
   - With regards to the three recent developments; namely the Enterprise and Regulatory Reform Act 2013, the FRC’s consultation on director’s remuneration and LAPFF’s expectation for executive pay review
   - The impact of the binding vote structure on their voting policy
   - Whether they support other investment managers publicly declaring opinions on how executive pay packages should be structured
   - The potential benefit to shareholders/owners in collective engagement groups

The key point of the Enterprise and Regulatory Reform Act 2013 for the Avon Pension Fund is that it gives shareholders of UK quoted companies binding votes on directors’ pay. The FRC consultation sought views on three main points, extended clawback provisions, remuneration committee membership and setting possible criteria for companies in identifying and/or engaging with shareholders that voted against remuneration resolutions. The LAPFF expectation for executive pay identified practical and alternative strategies of remuneration that are better aligned with long-term, sustainable returns and shareholder value. The LAPFF document was promoted to FTSE 350 companies and covered 15 points which included Fixed vs Variable Pay, Long Term Incentive Plans and Quantum of Pay.

Some of the points raised by investment managers in their responses are summarised below:

- Managers have noted an increase in the number of remuneration consultations. Companies are now seeking early shareholder feedback before proposing resolutions.
- Managers look to build constructive relationships with companies and allow time to address governance issues before escalating a vote against management.
- Engagement should generally be focused on long term rewards rather than short term bonuses and managersare supportive of clawback provisions.
- Remuneration should not be discussed in isolation but aligned with business strategy and shareholder value, management competence, corporate behaviour, succession, long-term performance, wider governance issues and fair distribution of rewards between management and owners.
- Although external scrutiny typically falls on engagement with larger-cap companies, Jupiter looks to engage strategically with smaller organisations where Jupiter may have a larger stake or companies that have perhaps not experienced a high level of stewardship interaction with investors previously.
- Managers are generally supportive of a collective voice – this is evidenced through LAPFF's work.
- In some cases managers have communicated views through industry surveys and collective engagement forums.

b) With support from LAPFF the Fund approached the investment managers to promote board diversity within their engagement and voting activities for the 2014 proxy season. LAPFF is a supporter of the '30% Club' which promotes voluntary action by British businesses on board diversity and effective talent management. The Fund encouraged the managers to vote against the Chairman of the Nomination Committee if there are no women on the board whilst abstaining if there are less than 25% women on the board. The Fund is broadly supportive of LAPFF's stance which will primarily focus on FTSE100 companies and then expand to FTSE250 companies in future years.

Following the initial review of Women on Boards in 2011 the third annual progress report was published which shows that women now account for 20.7% of board positions in FTSE100 companies; an increase from 17.3% in April 2012 and 12.5% in 2011.

Almost all (98) FTSE 100 boards now have at least 1 female and less than 50 additional female appointments to FTSE100 boards are now needed to reach the 25% target.

The Fund responded to the Call for Evidence on the future structure of the Local Government Pension Scheme (LGPS) in September 2013. As stated previously in this report two of our investment managers also responded (Blackrock and State Street). In addition our Custodian (BNY Mellon), Investment Consultant (JLT) and Actuary (Mercer) also provided responses.

The Fund participates in share action claims through a portfolio monitoring program operated by Robbins Gellar Rudman & Dowd LLP. Such claims arise when the court has ruled that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took part in filing for 6 new claims. Although most monetary claims are small, this activity is important as it supports the principle of holding companies and management to account.

In addition to the above the Fund is participating in a share action group against Royal Bank of Scotland in relation to the rights issue launched in April 2008 in which it is contended that the information in the prospectus did not reflect a fair view of the financial strength of the bank.

National initiatives:

The LGPS funds now have a national body (the LGPS Shadow National Advisory Board) to provide support to the Department of Communities and Local Government in managing and regulating the funds at the national level. Specifically the Board can provide guidance to funds as to how regulations should be implemented to meet best practice.

Following the transfer of responsibility for public health to local authorities, there was pressure from some employers for LGPS funds to divest from investments in tobacco companies. In response to this pressure, the Board obtained Counsel's opinion to clarify the fiduciary duties of an LGPS fund. Specifically they asked for advice on whether an LGPS administering authority owe a fiduciary duty and if so to whom it is owed; and how should the wider functions, aims or objectives of the administering authority influence the discharge of its LGPS investment duties.

The opinion concluded that in managing an LGPS fund the administering authority has fiduciary duties both to the scheme employers and to the scheme members. In addition the administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way). However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund.

This opinion supports the Fund's policy, that environmental, social and governance considerations should be taken into account in investment decisions as long as it does not pose a material financial risk to the Fund's ability to achieve its investment objective.

Section 3: Avon Pension Fund, Statement of Compliance with Stewardship Code

The Fund updated its compliance with the Stewardship Code following the small amendments made to the Code in 2012 of which the Fund continues to comply with.

The Fund's revised statement of compliance was approved by Committee in June 2013.

The revised statement can be found at:
http://www.avonpensionfund.org.uk/financeandinvestments/corporategovpolicy.htm

Appendix: Avon Pension Fund, Review of Proxy Voting 2013

(This document is included as Appendix 2 to the covering report).