

**Bath & North East
Somerset Council**



Avon Pension Fund FRC Stewardship Code



Avon Pension Fund, Statement of Compliance with Stewardship Code 2013

This is an updated draft following small amendments made to the Code in 2012. The changes to the Code with relevance to the Fund were as follows, with references to changes made in the Fund's revised draft statement in brackets:

- Principle 1
 - Guidance advised clarifying the scope of application of the Code within the investment portfolio (have stated it applies mainly to the Fund's equity portfolio)
- Principle 5
 - Guidance advised that to aid collaboration the Fund should include a contact for Stewardship issues (contact inserted)
- Principle 6
 - Guidance increased emphasis that investors should publicly disclose voting records (inserted explanation as to why undertake and publish aggregate voting data)
 - Guidance advised improved disclosure on use of proxy voting advisers (inserted confirmation that the Fund does not use proxy advisory services itself)
 - Guidance advised that Investors should disclose approach to stock lending and recalling lent stock (comments inserted explaining position on stock lending)
- Principle 7
 - Guidance advised that Funds should ask asset managers whether assurance on their voting and engagement activity has been covered as part of internal control report – (added comment that this is included as part of the Funds annual review of managers' internal control reports)

The revised draft statement for approval is as follows:

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. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

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 focuses on applying this code to its equity portfolios.

The Fund's policy in this area is set out in its Statement of Investment Principles (SIP).

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. Nine managers have published a statement of commitment to the Stewardship Code. In the case of the remaining four, three are hedge fund managers who are not long term holders of stock, and one is a property manager where the opportunity for stewardship activity is limited.

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 (formerly the Combined Code). The overseas equity managers are required to vote at all overseas company meetings where practical.

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 encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.

In respect of conflicts of interest within the Fund, pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to external asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from the active equity managers on voting and engagement activity are received by the pensions committee on a quarterly basis.

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.

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. 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 coordinated by 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 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.

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.

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. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from asset managers on how votes have been cast.

Aggregate voting records of managers are reported to the Committee at the quarterly meeting. Detailed monitoring analysis of managers voting activity is undertaken and reported on an annual basis in a Review of Proxy Voting report that is publically available. 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.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide a summary report of voting taken on the Fund's behalf and benchmark the voting activity against their view of best practice – this analysis forms the basis for the annual report on voting activity.

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 report. The Fund also annually reviews and updates its SIP, which sets out the Fund's approach to responsible investing and assess compliance with governance best practice. The activity undertaken by LAPFF is reported to the Committee on a quarterly basis.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area it would expect to be tested within the controls environment.

***Avon Pension Fund
Approved, June 2013***