

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

The Fund's investment managers have all previously adopted the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP) which set out best practice for how shareholders and their agents should discharge their responsibilities with regard to corporate governance. As a result, each of the 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. The Fund's SIP will be updated to require the external managers to adopt the Stewardship Code.

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 and this policy 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' from service 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 activities as a method of protecting and enhancing shareholder value.

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.

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.

The voting records of managers are reported to the Committee at the quarterly meeting. The Fund intends to make a summary quarterly report of voting activity available via the Fund's website in the future.

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.

**Avon Pension Fund
10 December 2010**