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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Responsible Investment Sub-Committee
Date and Time	Wednesday, 30th November, 2022 at 2.00 pm
Place	Mountbatten Room - HCC
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION
This meeting may be recorded and broadcast live on the County Council's website and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. ELECTION OF CHAIRMAN

To appoint a Chairman of the Sub-Committee until its first meeting following the County Council AGM in 2023.

4. ELECTION OF VICE-CHAIRMAN

To appoint a Vice-Chairman of the Sub-Committee until its first meeting following the County Council AGM in 2023.

5. MINUTES (Pages 5 - 10)

To confirm the minutes of the last meeting on 4 March 2022.

6. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

7. DEPUTATIONS

To receive any deputations.

8. SCHEME MEMBER COMMUNICATIONS (Pages 11 - 16)

To receive a report from the Director of Corporate Operations updating the sub-committee on communication to and from scheme members since its last meeting in March 2022.

9. STEWARDSHIP HIGHLIGHT REPORT (Pages 17 - 42)

To receive a report from the Director of Corporate Operations providing information regarding the Pension Fund’s investment managers’ stewardship of the Pension Fund’s assets.

10. CONSULTATION ON CLIMATE CHANGE RISK REPORTING (Pages 43 - 74)

To receive a report from the Director of Corporate Operations informing the sub-committee of the Pension Fund’s response to the consultation on climate change risk reporting. ***Annex 1 Consultation response - to follow***

11. RI CONSULTANCY REVIEW (Pages 75 - 84)

To receive a report from the Director of Corporate Operations providing information that has been commissioned by the Pension Fund from the RI Consultants M J Hudson.

12. EXCLUSION OF PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

13. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 85 - 86)

To confirm the exempt minutes of the meeting held on 4 March 2022.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held at THE CASTLE on Friday 4 March 2022.

Chairman:
* Councillor M. Kemp-Gee

Vice-Chairman:
Councillor T. Thacker

Elected members of the Administering Authority (Councillors)
A. Dowden *D. Mellor
*A. Joy (substitute)

Employer Representatives (Co-opted members):
*Dr. L. Bartle

Scheme Member Representatives (Co-opted members):
*Ms L. Gowland (deferred scheme member representative)

*present

13. **APOLOGIES FOR ABSENCE**

Cllrs Dowden and Thacker sent their apologies.

14. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

15. **CONFIRMATION OF MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 7 September 2021 were confirmed.

16. **DEPUTATIONS**

Dr Christelle Blunden spoke on behalf of a group of Southampton-based pension fund members deeply concerned about climate-related financial risk. The group were encouraged that the sub-committee's agenda contained climate-related financial reporting including modelling how climate change will impact the Fund.

Dr Blunden highlighted the research across the Local Government Pension Scheme (LGPS) by Platform, showing the Hampshire Pension Fund had £136m (2% of the Fund) invested in fossil fuel companies. Dr Blunden said she did not understand why the Fund has yet to adopt a formal position on limiting global warming to 1.5 degrees Celsius and moved away from the fossil fuel industry altogether.

With reference to the meeting's agenda Dr Blunden said that she celebrated the Pension Fund's engagement that had identified the need for Exxon Mobile to reduce their carbon emissions and that the Pension Fund's investment manager had disinvested due to the company's weak ambitions in this area.

Dr Blunden highlighted research from the Tyndall Centre for Climate Change Research that at the current rate of climate change under a business as usual scenario one can expect that by the turn of the century this planet will only be able to support 1/8th of the current global population. Decisions taken in this decade will be the most likely determinant of whether the planet avoids that future or not. Recent events in Ukraine show that energy companies don't have a moral conscience until they are forced into a position.

Dr Blunden concluded by asserting that if the Pension Fund were to ask its scheme members they would support decarbonisation. If the Pension Fund were to write the Paris Agreement and the Glasgow Climate Pact's 1.5C goal into its central investment position it would help pull through the broader business and political will for the huge employment-generating programmes needed for home and business building retrofits. It would help those responsible business and civil society leaders who are dedicating their lives to trying to get the planet to a safe, sustainable economic model; one that's safe for everyone - not just the fortunate few.

Ms Christine Holloway spoke on behalf of a group of Hampshire Pension Fund members – Hampshire Pension Fund Divest. Ms Holloway last made a deputation to the Pension Fund Panel and Board in July 2020. She expressed her disappointment that in her view ACCESS had made no obvious progress and of Hampshire's policy that 'disinvesting from fossil fuel companies at the current time is not the most appropriate action to transition to a low carbon economy'.

Ms Holloway continued by stating that a 1.5C warming limited had been accepted by governments and confirmed at the Glasgow Climate Pact but seemingly not accepted by the Hampshire Pension Fund.

Ms Holloway asked the Pension Fund to do two things:

1. Ask Pension Fund members their views, and
2. Listen to the Intergovernmental Panel on Climate Change (IPCC) whose recent report warned that an increase above 1.5 degrees looks likely on current trends and would result in irreversible impacts.

The Chairman thanked Dr Blunden and Ms Holloway for their deputations and said that they would see action from the Pension Fund furthering its response to climate change as part of the papers for the Pension Fund Panel and Board meeting on 25 March 2022.

17. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman expressed his devastation at the events in Ukraine and that he was in discussion with the Pension Fund's officers monitoring the reports of the Fund's investment managers and the Fund's minimal investments in Russia.

18. **STEWARDSHIP HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 6 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in and engaged with company management. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code and as such recognises its role of promoting best practice in stewardship, which is considered to be consistent with seeking long term investment returns.

The analysis showed that the majority of votes cast against companies' management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

The full details of how votes have been cast for the Pension Fund is published on its RI webpage:
Responsible Investment | Hampshire County Council (hants.gov.uk)

The Director's report also included a number of examples of the company engagement activities that the Pension Fund's equity, asset-backed securities and multi-asset credit investment managers had undertaken. The examples deliberately focused on issues related to Climate Change and companies with operations in Israel, which scheme members had shown their interest in.

19. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 7 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning environmental, social and governance (ESG) issues. The Pension Fund continues to receive correspondence expressing strong views, particularly that relate to investments in companies with operations in Israel and climate change, including two deputations to the last two Pension Fund Panel and Board meetings. The correspondence to date has been received from a very small minority of the nearly 183,000 scheme members.

20. **UK STEWARDSHIP CODE AND TASKFORCE ON CLIMATE RELATED FINANCIAL DISCLOSURE (TCFD)**

The RI Sub-Committee received a report from the Director of Corporate Operations (Item 8 in the Minute Book) which included draft updates to the Pension Fund's UK Stewardship Code report and TCFD report for 2022. The Director reported that Hampshire was very pleased to have been one of only six LGPS funds accepted as a signatory to the revised Code. The revised 2020 version of the Code included 12 principles which investors must demonstrate that they meet. The Financial Reporting Council (FRC – who produced the Code) gave feedback to signatories where their reporting against the Code could be improved. Hampshire's draft report addressed this feedback and included updated engagement examples from its investment managers.

The Pension Fund first agreed to support the recommendations of TCFD in 2021 and updating the Fund's TCFD report continues that commitment. In 2021 the Department for Work and Pensions (DWP) issued updated regulations phasing in the requirement for private sector pensions to report according to the TCFD recommendations. It is expected that the Department for Levelling Up, Housing and Communities (DLUHC) will issue similar regulations for the LGPS. By maintaining its own TCFD report Hampshire should be well positioned when the updated regulations are published. Hampshire's TCFD report will been brought up to date with the Fund's current responsible investment activities.

RESOLVED:

That the updated UK Stewardship Code report and Taskforce on Climate Related Financial Disclosure report for 2022 are approved for publication.

21. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

22. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the RI Sub-Committee held on 7 September 2022 were confirmed.

23. **UPDATES TO THE RESPONSIBLE INVESTMENT POLICY**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 11 in the Minute Book) to consider proposed updates to the Responsible Investment Policy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	30 November 2022
Title:	Scheme Member Communications
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the sub-committee on communication to and from scheme members since its last meeting in March 2022.

Recommendations

2. That the communication to and from scheme members on Responsible Investment issues is noted.

Executive Summary

3. The sub-committee's terms of reference include the actions:

   - 'to engage directly and indirectly with scheme members and employers to hear representations concerning Environmental, Social or Governance (ESG) issues as appropriate',

   - 'to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders'.

4. The majority of the Pension Fund's RI communication in the last 6 months have been in relation to the consultation on amendments to the Fund's RI policy, the results of which were reported to the Pension Fund Panel and Board in July 2022. There has been one follow-up communication in relation to the revised RI policy and three separate communications regarding specific issue; investments in companies with operations connected with the

Occupied Palestinian Territory and proposals at the Alphabet Annual General Meeting.

Deputations

5. Deputations were received at the March 2022 meeting of the RI sub-committee and the Pension Fund Panel and Board. All of the deputations continued to focus on the climate change impacts of the Pensions Fund's investments and investments in fossil fuel companies.

    - One of the deputations to the RI sub-committee asked specifically for the Pension Fund to consult with its scheme members on RI. The Fund did this in April and May 2022 consulting on changes to the RI policy, the results of which were reported to the Pension Fund Panel and Board in July 2022.

    - A further deputation from the Dirty Money campaign was received by the March 2022 Panel and Board meeting following the publication of the draft revised RI policy. Having read the revised policy the deputee commented that in her view 'the Hampshire Pension Fund's attitude towards RI has transformed in the past five years and its approach is now consistent with current good practice in this area'.

Other correspondence

Occupied Palestinian Territory

6. Two pieces of correspondence have been received on the ongoing issue of companies that are listed by the UN as involved in specified activities related to the Israeli settlements in the Occupied Palestinian Territory. The Pension Fund has responded to confirm it is aware of the UN's list, of which the Pension Fund has investments with a very small number of companies on the list (which are a very small proportion of the Fund's total investments) and has raised the issue of the companies on the list with the relevant investment managers. The engagement with companies that have business in the Occupied Palestinian Territory is reported to the RI sub-committee as examples of the Pension Fund's stewardship activities.

Alphabet

7. Correspondence was received from a campaign in relation to the shareholder vote at the Alphabet (Google) Annual General Meeting. The campaign was in favour of two proposals addressing the company's responsibilities to protect human rights in its operations. Details of how the Pension Fund's investment

managers cast these votes is reported in the Stewardship report on this meeting agenda.

Climate Change

8. A number emails were received in relation to the Pension Fund's consultation on its revised RI policy and correspondents were encourage to participate in the consultation. Following the conclusion of the consultation and the Panel and Board's consideration of the results and agreement of the revised strategy, the trade union UNISON wrote to the Panel and Board to express their disappointment in the outcome of the updated policy. Cllr Kemp-Gee's reply to UNISON was copied to all of the Panel and Board members.

Climate Change Impact Assessments

9. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

10. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy Responsible Investment | Hampshire County Council (hants.gov.uk).

11. This paper captures the views of scheme members that have been shared with the Pension Fund on RI issues, including the risks and impacts of Climate Change, so that the sub-committee can consider these views in their future decision making.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a report because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	30 November 2022
Title:	Stewardship highlight report
Report From:	Director of Corporate Operations

Contact name: Alan Kitcher

Tel: 0370 779 6597 **Email:** Alan.Kitcher@hants.gov.uk

Purpose of this Report

1. This report provides information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets, their engagement with the management of the companies the Pension Fund invests in, including how the investment managers have voted on behalf of the Fund during the period January to June 2022.

Recommendations

2. That the Pension Fund Responsible Investment Sub-Committee notes how the Pension Fund's investment managers have voted in the Fund's portfolios and engaged with the management of these companies as highlighted in this report.

Executive Summary

3. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code 2020 and as such recognises its role of promoting best practice in stewardship, which is considered to be consistent with seeking long term investment returns. As a Pension Fund whose investments are externally managed, much of the day-to-day responsibility for implementing stewardship on behalf of the Fund is delegated to the Fund's investment managers, including engagement and casting shareholder votes for its equity investments, and the expectations of the investment managers are set out in the Fund's Responsible Investment Policy as part of the Investment Strategy Statement.

4. The Fund recognises that there are different expectations for its investment managers in terms of how they engage with companies, but as a minimum all are expected to engage with invested companies on areas of concern related to environmental, social and governance (ESG) issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments. In addition, the Fund's active investment managers are required to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. Paragraphs 13 onwards of this report provide examples of how the Fund's active investment managers have engaged with the management of the companies the Fund is invested in.

5. As investors in common stock (equities), the Pension Fund (via the pooled funds it invests in) will have certain rights to vote on how the company it invests in is run. These include being able to vote in elections to the board of directors and on proposed operational alterations, such as shifts of corporate aims, as well as the right to vote on other matters such as renumeration policies and the appointment of auditors. In addition to these items, for which recommendations will be made by company management for shareholders to either agree or oppose, individual shareholders can propose their own subjects for the shareholders to vote on, but they are non-binding on the company's management in most instances.

6. Shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating.

7. How votes are cast by the Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held:

   - Equities directly held directly in the ACCESS pool (Acadian's Low Volatility portfolio, Baillie Gifford's Long-term Global Growth and Global Alpha portfolios and Dodge & Cox's Global Stock Fund portfolio) will be voted in accordance with ACCESS's voting guidelines, which were agreed by the ACCESS Joint Committee.
   - Equities in pooled funds of external investment managers (such as UBS-AM) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund.

8. As a result of the Pension Fund's policy there is a risk that its investment managers could cast their votes differently for the same shareholder resolution, and examples of these are described in Table 1. However, the Fund believes its current policy remains the best approach as it enables the Fund's investment managers to cast votes in line with the portfolio investment strategy that led to holding the stock.

9. The Pension Fund publishes its investment manager’s voting reports online:

https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment

Engagement highlights

10. In order for the Responsible Investment (RI) Sub-Committee to scrutinise the engagement activity of the Pension Fund’s investment managers, the following paragraphs provide a summary of engagement highlights from the first half of 2022. The Pension Fund’s investment managers have been challenged to provide engagement examples of where they have engaged on Climate Change and investments in Israel (which have both been the most prominent issues recently raised by the Pension Fund’s scheme members), where they have engaged collaboratively and where there is a risk they feel their engagement may not be successful.

11. Investment managers have to carefully manage their relationships with company management therefore there are instances where to preserve an effective working relationship, the investment managers cannot publicly disclose the full details of their engagement or have asked to anonymise the examples they have provided.

12. The explanations provided by investment managers for their voting and engagements are provided for Members to evaluate the investment managers stewardship and to challenge and follow-up as necessary in future interactions with the investment managers.

Acadian

13. **A Polish Utilities Company** – this example is related to reducing carbon emissions and transition to a low carbon economy. The company has a stated ambition to be climate neutral by 2050. By 2030 it aims to have around 85% of generation from zero- and low-emission sources, with renewables providing around 50% of the total. Despite these ambitions, the company scores poorly across several Climate Action 100+ indicators. The company has not aligned itself to the TCFD framework and has not announced science-based targets. Acadian have asked the company to publicly commit to targets and explain its definition of climate neutrality. The company has acknowledged the issue and Acadian will continue to engage to ensure a credible strategy is implemented.

14. **A Taiwanese Industrials Company** – this example is related to reducing carbon emissions and transition to a low carbon economy. Acadian identified a discrepancy within the company's reported carbon emissions data. The

company's sustainability report acknowledges that the firm restated its carbon numbers. Acadian have asked the company to adhere to the GHG Protocol and explained how to identify abnormal trends in companies' carbon reporting. Acadian are maintaining an ongoing dialogue.

15. **A US Utilities Company** - this example is related to collective engagement. This is an on-going collaborative engagement associated with Climate Action 100+. The engagement is related to Acadian's Climate Action theme (Just Transition). The company has limited reporting on its Just Transition policy and does not have a commitment to retaining, retraining, redeploying and/or compensating workers affected by decarbonization. Acadian asked the company to expand its reporting on the policy, actual actions, and implications.

Baillie Gifford: Global Alpha

16. **Alibaba** – Baillie Gifford met with Alibaba's Director of ESG Engagement and RI in order to encourage improved ESG reporting and to explore how sustainability is managed across the Group. Alibaba recognised that its ESG reporting has not been comprehensive enough in the past and has committed to improving it greatly in 2022. Alibaba have targeted ESG improvements and recently published a carbon neutrality action plan, which seeks Scope 1 and 2 emissions neutrality by 2030. Baillie Gifford also engaged on the Group's social responsibility strategy and discussed its new Common Prosperity committee which, chaired by the CEO, aims to establish accountability across the Group for delivering on a number of social initiatives, including improving the quality of jobs provided and enabled by Alibaba. The initial engagement has been followed up with further communications illustrating good sustainability practice and reporting, and meetings with Alibaba will continue to encourage positive social and environmental developments.

17. **Booking.com** – Bookings.com provides an online accommodation reservation service. They are one of the businesses identified by the Office of the United Nations High Commissioner for Human Rights (OHCHR) involved in activities linked to Jewish settlements in the Israeli-occupied West Bank. These activities relate to tourist rental listings. Booking.com is a wholly owned subsidiary of Booking Holdings. Booking Holdings operates in over 220 countries, with 28 million listings. Its listings in the West Bank return less than 100 properties, thus it's a small part of its overall revenue base. Baillie Gifford have concerns about the broader reputational impact this could have on the business and so are actively engaging with Booking Holdings to understand their policy on this issue. This has included discussions around their due diligence process, their Human Rights statement, and their risk-based assessments. Booking Holdings appears to be taking steps to better explain its approach to operating in this and other contentious regions. Baillie Gifford continue to monitor this closely to assess the danger of this becoming a serious reputational risk.

18. **CRH** – CRH is an international group of diversified building materials businesses. Baillie Gifford have engaged with the Chief Operating Officer and Investor Relations to discuss CRH's updates regarding its approach to decarbonising its business. CRH feel they have an important role to play in decarbonising cement - one of the company's building materials which accounts for 16 per cent of its sales but 82 per cent of its carbon emissions. Baillie Gifford challenged the company's targets due to their limited scope and in response earlier this year the company announced broader and more ambitious carbon targets. Various parts of the business have developed their own decarbonisation strategies to implement the new targets. Executive remuneration has also been amended and decarbonisation now represents 5 per cent of the long-term incentive plan. CRH has also announced an innovation fund to encourage those within the business to think about the solutions needed to decarbonise at scale. Baillie Gifford have joined the Climate Action 100 collaborative engagement group for CRH to support future engagement. Ensuring CRH finds a solution to decarbonise at scale is vital to ensure a competitive advantage and the sustainability of revenues. This will continue to be the key focus of engagement.

19. **Rio Tinto** – Rio Tinto is a leading global mining group that focuses on finding, mining and processing the Earth's mineral resources. Baillie Gifford have engaged with Rio Tinto and discussed the company Climate Action Plan. The company has strengthened its decarbonisation targets for scope 1 and 2 emissions in the last year, aiming to reduce its operational footprint by 50 per cent by 2030. Baillie Gifford commended the company for this work but also outlined their concerns that it is not doing enough to address the large scope 3, downstream emissions in its value chain. These emissions represent approximately 95 per cent of Rio Tinto's carbon footprint, the majority of which is attributed to its steel manufacturing customers. While there are difficulties in addressing indirect emissions, Baillie Gifford think the company can show more ambition and greater urgency in its climate strategy. In addition to developing partnerships and funding research, Baillie Gifford think Rio Tinto should consider setting scope 3 emissions targets, and Baillie Gifford would support greater financial investment to futureproof this part of the business. Baillie Gifford plan to continue their dialogue with the company and have raised the concerns with the new Chair.

Baillie Gifford: Long Term Global Growth (LTGG)

20. **Pinduoduo** - Pinduoduo is an agricultural-focused technology platform. Baillie Gifford have engaged with Pinduoduo to discuss their agricultural initiatives in addition to other ESG approaches including carbon emissions, green packaging, quality control, talent development and board structure. After the discussions, Pinduoduo launched their ‘10 Billion Agriculture Initiative’ to support agricultural modernisation. The measure of cutting multi-layered distribution in logistics has enabled the company to better solve the issue of food waste. Pinduoduo has a specialised quality control team in-house dealing with counterfeit goods and verifying the product quality. The

company has also developed a robust culture for talent development and offers young employees sufficient growth opportunities. With several initiatives advancing together, Pinduoduo is solving real-world problems to facilitate agricultural modernisation and lift people out of poverty. Baillie Gifford hope to see more efforts in disclosing carbon numbers and mapping out firm-wide climate strategies.

Dodge & Cox

21. **Williams** – The Williams Companies (Williams) is one of the largest natural gas transporters in the United States. Dodge & Cox has had multiple discussions with company management including Board directors, CEO, CFO, heads of key divisions, and members of Williams' ESG team, in addition to discussions with third-party research analysts and credit agencies. Williams currently targets a 56% reduction in Scope 1 and 2 greenhouse gas emissions by 2030. The primary ways they are achieving lower emissions include new methane reduction initiatives and electrifying pipeline infrastructure to reduce the company's internal fossil fuel consumption. Management is also exploring commercial opportunities around solar energy, alternative fuels such as renewable natural gas and hydrogen, and efficient energy storage. Achieving these decarbonization targets will require significant capital and operational expenditures for Williams, but there are also potentially attractive revenue opportunities. Dodge & Cox's global industry analyst incorporated these metrics into their financial model for Williams and tracks the company's progress as well as costs to achieve targeted emissions reduction, among other metrics. For example, Williams recently reported that its Scope 1 emissions generated in 2021 were reduced by approximately 29% compared to 2020. A subsequent conversation with management yielded additional details that were incorporated into an updated earnings forecast.

22. **Booking Holdings** - Booking Holdings is currently the largest online travel agency, and includes the brands Booking.com, KAYAK, and Rentalcars.com, among others. Dodge & Cox is aware of the concerns around Booking's involvement in the Occupied Palestinian Territories and its inclusion in the Report of the United Nations High Commissioner for Human Rights. At this time Dodge & Cox does not believe these concerns pose a material risk to the long-term value of the company's business given the company currently operates in 220 countries around the world and less than 0.002% of its properties are affected. However, Dodge & Cox think these concerns should not be ignored. Over the years, Dodge & Cox have spoken with Booking's company management about the importance of the company's reputation on equity, inclusion, and fairness as one of the most globally focused companies in the world. When the UN Report was flagged, Dodge & Cox asked Booking's Investor Relations team if the company intended to address concerns raised by the report, and they made it clear that the company would respond. Most recently, in February 2022, in a conversation with Dodge & Cox that covers Booking and the Head of Dodge & Cox's Proxy Voting and

Governance Team, they asked Booking to specifically address how the company will be responding to the UN Report and the concerns over the properties the company holds in the Occupied Palestinian Territories. Dodge & Cox also wanted to better understand what policies and procedures the company intends to put in place to avoid similar situations in the future. Booking recently created a Human Rights Risk Management Program that is designed to manage human rights issues that are identified across the locations where the company operates, and they published a Human Rights Statement addressing this issue in April 2022. They also are making sure the properties are labelled as being located in Israeli Settlements in the Occupied Palestinian Territories for transparency to customers. Dodge & Cox have asked that Booking keep them updated on the Human Rights Management Program and look forward to continuing the conversations with Booking company management on this and other relevant issues.

UBS-AM: passive equities

23. **ABB Ltd** – ABB is a multinational electrical equipment, robotics, and automation manufacturer. UBS engaged with the Company on the topic of executive remuneration to address the lack of ambitious ESG targets in the compensation framework. Given the significant opportunities that the Company enjoys in the transition to a low-carbon economy, UBS saw ESG compensation targets as a potential key driver of company value. UBS discussed the inclusion of ESG targets into the compensation framework with Investor Relations. UBS suggested the inclusion of such targets in the Long Term Incentive Plan (LTIP) - with a significant weight - reflecting the strategic priority of the Company to reduce emissions. UBS mentioned that targets should be based on the implementation pathway for greenhouse gas reduction, setting interim targets on the way to the long-term 2030 target. The Company was receptive to feedback, yet mentioned they received contrasting inputs on this point from a number of investors. The Company also mentioned that ESG performance is ultimately reflected into the Total Shareholder Return (TSR), which determines 50% of the LTIP, and that ESG targets were already included in the annual bonus. In response to UBS's engagement efforts, as well as feedback received from other large shareholders, the Company decided to immediately include ESG targets in the LTIP, weighing 20% of the overall grant. The targets will initially be set for the 2022-24 performance period, and they will be based on reduction of Scope 1 & 2 emissions. UBS consider this outcome to be clearly positive, as investor dialogue was key in encouraging the Company to move quickly in the right direction: reduction of greenhouse gas emissions is a key opportunity for the Company, and a significant ESG target in the LTIP will push the Company to capitalise on it.

24. **Chubu Electric Power** – Chubu Electric Power is a Japanese electric utilities provider. UBS have been engaging with the Company on its climate transition plans for three years. Since then, the Company has made progress on developing targets related to climate change including a commitment to net zero emissions by 2050. In June 2021 UBS wrote to the Board acknowledging the company's progress in setting long term emissions reduction targets, increasing its exposure to renewable energy, and aligning corporate disclosure with the TCFD recommendations. UBS also strongly encouraged the Company to further consider expanding the scope and time horizons of its emissions reduction targets, and accelerating the phase out of its coal power generation. The Company has announced a target to reduce emissions from power sold to customers by 50% between 2013-30 in addition to its net zero commitment for 2050. Despite plans to significantly expand renewable energy there are uncertainties related to the slow rate at which the Company aims to phase out its coal-fired power plants and the dependence on reactivating its nuclear capacity. In response to UBS's letter the Company has acknowledged the concerns and indicated its desire to continue to engage.

25. **China Mengniu Dairy Co.** – Mengniu Dairy is a manufacturer and distributor of dairy products. UBS co-led a collaborative engagement with China Mengniu, as part of their membership of the Access to Nutrition network. In 2021 the Access to Nutrition Index included Chinese companies for the first time, including China Mengniu Dairy. The Company scored poorly, which appeared to be due to the use of publicly disclosed information only. Other companies, which have been included in the Index for many years, have had the opportunity to engage with the Access to Medicine Foundation in the past, to share additional information directly with them but also to work towards enhanced practices and disclosures. UBS led this collaborative engagement with a total of 30 investors supporting the engagement and 10 participating in the engagement meeting itself. The objectives of the engagement were to:

    - explain the importance/materiality of Access to Nutrition from an investor perspective
    - to discuss best practices and encourage the company to enhance practices and disclosure in the areas of governance, strategy, lobbying, and transparency and safety in operations.

    The company has proved to be very receptive to the engagement and has requested a follow-up meeting with us and the Access to Nutrition Foundation, to better understand best practices as well as the methodology of the Index. They have committed to enhance disclosure on existing practices and to enhance practices.

Barings (multi-asset credit)

26. **Oil & Gas Services Company** - For a number of years, Barings have been involved with an international oil field services provider, which operates through 3 segments: Land Drilling, Platform Services (offshore), and land rig manufacturing and engineering services. Barings was a leading member of the creditor committee during the 2020 balance sheet restructuring, which

saw a 75% reduction in debt with creditors taking 100% of the equity. Given the oil & gas operation, Barings actively engaged during the restructuring, and continues to engage as shareholders to improve the ESG performance of the company. A positive outcome was that following shareholder advice which Barings participated in, the company engaged a leading ESG consultant in 2021 to begin the development of a formal ESG report, which will be released to investors over the coming months. As part of this process, the company is implementing formal carbon tracking across the group to develop formal reduction targets.

27. **Global Automotive manufacturer** - Barings holds an investment in a global automotive manufacturer. Given its scale, the company is considered a niche manufacturer under current European emissions legislation and is excluded from current mandatory emissions reduction targets. From 2030, the company is expected to be captured by regulatory requirements in line with larger automotive OEMs. Barings has viewed this as a key environmental and financial credit risk for the company given its potential to impact demand dynamics and upcoming capital investment requirements. The company has previously carried a 4 (Poor) / Stable Outlook environmental rating under Barings' ESG Ratings methodology. Barings has been engaging with higher emitters across relevant sectors as part of its focus on addressing environmental risk across strategies. During the last year, Barings had multiple engagement calls speaking directly to the company's sustainability team and senior management representatives. Barings requested improvements to the governance approach to environmental risk topics and also the implementation of specific targets around emissions reduction. In April 2022, the company announced its ESG strategy including a commitment to the Science Based Targets initiative (SBTi) Net-Zero Standard. The business is now targeting a net-zero manufacturing footprint by 2030 and a net zero supply chain by 2039. The company also announced a path towards electrification with the launch of its first plug-in hybrid vehicle expected in 2024 and the first fully electric vehicle in 2025.

Alcentra (multi-asset credit)

28. **Thematic dialogue with oil and gas companies** – Alcentra initiated an engagement with 12 oil and gas companies to gain a better understanding of their climate strategies – including relevant metrics and targets used. For example, Alcentra seek to understand if companies have set climate goals and if these are aligned with the aims of the Paris Agreement, which seeks to keep the temperature rise well below 2 degrees Celsius above pre-industrial levels, preferably to 1.5 degrees Celsius. The dialogue has been led by Alcentra's liquid credit team in close collaboration with the Responsible Investment team. The key considerations pertain to companies' governance, strategic risk management, emissions reduction metrics and targets, as well as other environmental factors.

29. **European manufacturer of powered garden equipment** – Alcentra's Co-Head of Special Situations was appointed to the Board of Directors of a European manufacturer of consumer goods held in their portfolio. He is also the chair of the firm's newly formed ESG Committee. The aim of this engagement was to support the company as it develops is ESG strategy. The establishment of the portfolio company's ESG Committee has been valuable for the firm as it supports the company in its journey to become more sustainable. The ESG Committee is responsible for identifying its strategic ESG priorities and implementation projects, defining ESG targets and KPIs to measure progress, evaluating ESG quarterly data, identifying progress against targets and corrective actions, and reviewing and approving the company's ESG disclosures. The company is committed to progressively replacing petrol-powered products with electric or battery-powered alternatives, with the aim of reducing the environmental impact of products sold on the market. This transformation is one of the main pillars of the company's sustainability roadmap. The transition from petrol to batteries has improved the competitiveness of the brand in the market and has increased the company's knowledge on green technologies. It has also reduced the energy consumption and the greenhouse gas emissions from the use of its products. Additionally, it has created a more attractive product that is quieter and does not emit fumes while operating. Alcentra believe their engagement has contributed to creating value at the firm, which supports the objective of ensuring long-term returns for their clients.

Insight (asset backed securities (ABS))

30. **Together Financial Services** - Together Financial Services is a UK based financial services company providing residential, commercial and buy-to-let mortgages as well as providing bridging loans and auction finance. Insight carried out a proprietary questionnaire which highlighted the following areas of weakness: environmental stress tests and monitoring environmental risks across their loan book, no inclusion of explicit climate risk analysis within their underwriting process beyond standard practice, lack of carbon data and environmental metrics from originator 'data tapes' that are provided at new issue and at regular intervals, and weak processes to cope with changing circumstances by underlying borrowers. This initial engagement highlighted these concerns; however no material change has occurred to date. Together have listened to the feedback and confirmed that they will consider the provision of information in areas such as climate risk and carbon footprint. Insight will continue to assess and review practices and will follow-up in subsequent reviews to monitor progress.

31. **CVC Cordatus** – Insight's engagement with CVC Cordatus was undertaken in addition to the standard credit underwriting process that was conducted as an integral part of the due diligence process. Material concerns were identified through the credit research process including:

- Governance and permitted investment activity within the Collatoralised Loan Obligation (CLO) enabled the CLO manager undue freedom to run inappropriate levels of concentration risk within the structure. Greater exposures to 2nd Lien loans were also permitted compared to previous deals.
- ESG restrictions within the CLO were too wide. Initial documentation permitted exposure to any obligor as long as under 50% of their revenues came from problematic sectors such as from the production or marketing of pornography or prostitution, opioid manufacturing and distribution, fossil fuel extraction by unconventional sources, fracking or coal mining.

Engagement included discussions with both the CLO manager (CVC) and the lead broker on the deal. As a result of direct engagement, CVC Cordatus agreed to address all of the underlying concerns. Investment restrictions were tightened, leading to a stronger governance control over the permitted investment flexibility of the CLO manager. 2nd lien loan limits were materially reduced to bring the deal in line with previous deals. The CLO manager reduced the revenue limit for problematic from 50% to 5% in line with our requirements. The engagement was concluded satisfactorily, and Insight continue to engage with CVC Cordatus more broadly as part of their wider engagement.

TwentyFour AM (asset backed securities)

32. **Enra Specialist Finance –** Enra are an independent property-backed lending specialist. TwentyFour have engaged with Enra on its plan to measure the carbon emissions of its mortgage portfolio, as well as its strategy to improve the average EPC rating of its mortgaged properties over the next five years in line with new government requirements to have a minimum EPC rating of C for new buy-to-let tenancies by 2025 and for all existing buy-to let tenancies by 2028. Enra records EPC ratings for its 1st lien mortgages but is unable to record ratings for its 2nd lien mortgages. Enra are not tracking carbon emissions at the moment but have said they will look at methodologies to do so as the industry evolves. Enra intends to grow its green buy-to-let mortgage origination in order to incentivise higher EPC rated properties, and the product is also paired with a commitment to purchase carbon offset credits by West One (Enra's lending brand), offsetting one tonne of carbon for each product sold. TwentyFour expect Enra to make further progress on the carbon emissions data and EPC rating for 2nd lien mortgages. This will be monitored going forward and TwentyFour will re-engage as necessary.

33. **Lendinvest** – Lendinvest are a UK Buy-To-Let mortgage lender. TwentyFour have engaged with Lendinvest to understand their approach in the current macroeconomic environment with rising rates, persisting high inflation and a cost-of-living crisis, impacting borrower's affordability, which could result in an increase in mortgage arrears. Lendivest has not made any material change to their underwriting criteria thanks to their existing conversative lending guideline. They stress interest coverage ratio at 5%

generally, in line with market standards and only consider rental income for the affordability assessment of the borrowers (no personal income is allowed). This means that higher mortgage interest rates have always been considered through the underwriting process and the current increase in rates does not present significant risk for borrowers. As funding costs have significantly increased over the past few months, particularly costs of hedging the mismatch between fixed rate mortgages and floating rate notes of the RMBS, Lendinvest has gradually increased its pricing. As a result origination volumes have dropped, in line with other peers in the market. Mortgage performance has so far remained stable. TwentyFour monitor closely the performance in the current climate as they expect some of the challenges faced with borrowers to materialise into deterioration of performance. TwentyFour continue to engage regularly with Lendivest to follow any changes in their lending strategy and look for early signs of increases in mortgages arrears.

Voting highlights

34. In order for the RI Sub-Committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights for the period January to June 2022, which are contained in Appendix 1. The highlight report does not attempt to quantify the number of votes cast by the Fund's investment managers (which is significant) but focuses on providing examples of the types of issues where investment managers have voted against company management, resolutions of fellow shareholders, or on sensitive or topical issues.

35. The majority of votes cast against company management by the Fund's investment managers cover the following reasons:
    - Nominees for company directors who are not sufficiently independent, have too many other outside interests, or who have a history of managing the company and ignoring shareholders' concerns.
    - Remuneration policies where the level of pay is felt to be excessive and/or short-term incentives are more valuable than long-term incentives and do not provide adequate alignment with shareholders' long-term interests.
    - The appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company were not clear.

36. In all these instances voting against the company management is in line with ACCESS's policy, which allows for the investment manager to exercise their judgement and to not follow the policy if they can provide a suitable rationale for doing so. The highlight report shows the sorts of instances where Baillie Gifford or Acadian have exercised this discretion and chosen to support the

company management on some of these issues, where they believe that there are compensating governance controls in place.

37. The review of voting records has highlighted instances where the Pension Fund's investment managers have voted differently on the same point; examples of these are in Table 1.

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	**Resolution**	**Investment Manager 1**	**Investment Manager 2**
BNP Paribas SA	Authorize Issuance of Equity or Equity-Linked Securities with Pre-emptive Rights	Dodge and Cox - FOR - In general, we have confidence in the abilities and motives of the Board and management of the company and typically will vote in accordance with them on this type of issue.	UBS - AGAINST - We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.
Charter Communications, Inc.	Disclose Climate Action Plan and GHG Emissions Reduction Targets	Dodge and Cox - AGAINST - A vote against this proposal is warranted given that the proponent is requesting the company provide emissions reduction targets and plans to reduce them which goes beyond a report or further data.	UBS - FOR - We will support proposals that seek to promote greater disclosure and transparency in corporate environmental policies as long as: the issues are not already effectively dealt with through legislation or regulation, the company has not already responded in a sufficient manner, and the proposal is not unduly burdensome or overly prescriptive.
Juniper Networks, Inc.	Amend Omnibus Stock Plan	Dodge and Cox - FOR - We typically supports measures which enable companies to attract and retain key employees and directors. We review each compensation plan to	UBS - AGAINST - Omnibus plan deemed to be too expensive or overly dilutive.

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	**Resolution**	**Investment Manager 1**	**Investment Manager 2**
		evaluate whether the plan overly dilutes shareholder value. We use two independent proxy research confirms which provide research on proxy issues as a source to help determine the dilutive effects of each plan. We favour plans which reward long-term performance and align management and shareholders' interests.	
Alphabet	Proposal 13 - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	Acadian – FOR - Shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.	Ballie Gifford – AGAINST - We are comfortable with the Company's current human rights-related disclosures regarding the concerns raised by the proponent over locations of Google Cloud Data Centres.

Climate Change Impact Assessments

38. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

39. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of

climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy InvestmentStrategyStatementincludingRIpolicy.pdf (hants.gov.uk).

40. This paper addresses how the Pension Fund's investment managers have considered ESG factors including the risk and impact of Climate Change have been considered in their stewardship of the Pension Fund's investments.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Acadian (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	Shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.
ASAHI Net, Inc.	Management - Approve Restricted Stock Plan	Against	No specific performance hurdles are specified, and the restricted stocks become disposable in less than three years after this shareholder meeting by non-retiring recipients.
Berkshire Hathaway Inc.	Shareholder - Report on Climate-Related Risks and Opportunities	For	An assessment of the company's management of climate-related risks and opportunities would allow shareholders to better understand how the company is managing systemic risks posed by climate change and the transition to a low carbon economy.
Flowers Foods, Inc.	Shareholder - Report on Political Contributions and Expenditures	For	Reporting on the company's political contributions and policies would benefit shareholders in assessing its management of related risks.
Fujicco Co., Ltd.	Management - Elect Director and Audit Committee Member	Against	The nominee is a non-independent and less than one half of the Board are independent non-executive directors and the nominee is a non-independent member of the audit committee.
The Home Depot, Inc.	Shareholder - Report on Efforts to Eliminate Deforestation in Supply Chain	For	Shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation
UNIRITA, Inc.	Management - Approve Takeover Defence Plan	Against	The total duration exceeds three years, the board lacks sufficient independent monitoring, and the plan lacks a credible special committee.

Baillie Gifford – Long-Term Global Growth (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	We find that a wholesome human rights risk assessment with emphasis on misinformation and content management will be beneficial all stakeholders and may help identify gaps in current procedures.
Amazon.com	Shareholder - Environmental	Against	We opposed a shareholder proposal on packaging materials. Amazon has taken significant actions and provided substantial disclosure on environmental and packaging initiatives, and we do not believe that the action requested under this proposal is necessary.
Amazon.com	Shareholder - Social	Against	We opposed a shareholder proposal on worker health and safety differences. Amazon has agreed to carry out a diversity and equity audit and has assured us that the information requested under this proposal will be covered by that audit.
Amazon.com	Shareholder - Social	For	We supported a shareholder proposal on freedom of association. In light of several recent high-profile controversies, we believe that shareholders would benefit from a more thorough examination of the compliance of the company's policies and practices with international fundamental rights.
Amazon.com	Shareholder - Governance	For	We supported a shareholder proposal on lobbying. We have supported this proposal at Amazon.com for the last two years. We believe that the company's disclosure is lagging that of its peers, and greater transparency of all political expenditures and lobbying would enable shareholder to assess alignment with Amazon's values and corporate goals.
CATL 'A' - Stock Connect	Management - Articles of Association	Abstain	We abstained on the amendments to the Articles of Association as one amendment will grant power to the board to make external donations, with no information on how these donations will be used.
Meta Platforms Inc	Shareholder - Social	Abstain	We abstained on a shareholder resolution calling for an external human rights impact assessment. While we believe that this will add value to all stakeholders, we recognise the steps undertaken by the company, including the commitment to carry out an extensive risk assessment.

Stock	Proposal	Vote	Rationale
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution on risks of the use of concealment clause, as we think that additional disclosure on this provision will help the company to further improve its workplace practices.
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution requesting a report covering failures of community standards enforcement, as we believe that the proposal concerns a material topic for the company and such a report will help identify potential gaps in their control procedures.
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution calling for a report on child exploitation as we believe this is in the best interest of shareholders.
Moderna Inc	Management - Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing the re-appointment of the auditors, where the fees for non-audit work are exceed the fee for audit work. We were comfortable with the justification in this instance and decided to support.
Netflix Inc	Shareholder – Governance	For	We supported a shareholder resolution for a report on lobbying payments and policy as we believe enhanced disclosure on these subjects is in shareholders' best interests.
Salesforce.com	Shareholder - Governance	Against	We opposed a shareholder proposal calling for an independent board chair as we are comfortable with the current governance structure.
The Trade Desk	Management - Remuneration	Against	We opposed the executive compensation due to concerns over the quantum and performance conditions attached to the large off-cycle grant made during the year.

Baillie Gifford – Global Alpha (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
AJ Gallagher & Co	Management - Remuneration	Against	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.
Amazon.com	Shareholder - Climate	Against	We opposed a shareholder proposal on aligning retirement plan options with climate action goals. We consider that the current options offer sufficient choice on this topic.
Amazon.com	Shareholder - Social	For	We supported a shareholder proposal on gender/racial pay. We have supported this proposal at Amazon.com for the last two years. We believe that women and minorities are underrepresented in leadership positions compared with the broader workforce, and reporting the unadjusted median gap would help to assess structural bias regarding job opportunity and pay.
B3 S.A.	Management - Elect Director	Against	We opposed a resolution to confer our votes on unknown directors should the slate of directors' change.
Booking Holdings Inc	Shareholder – Climate	Against	We opposed a shareholder proposal to incorporate climate change metrics into executive compensation arrangements because the company is already considering this and so we believe that this proposal is unnecessary.
Chegg	Management - Remuneration - Say on Pay	Abstain	We abstained on the resolution to ratify named executive officers' compensation due to a number of concerns including an annual performance period for the long-term incentive plan and the payment of one-off discretionary awards.
Cloudflare Inc	Management - Remuneration	Against	We opposed the executive pay due to concerns over the overall quantum and the lack of operational performance measures within the one-off option awards made to the co-founders.
Cloudflare Inc	Management - Incentive Plan	Against	We opposed the one-off option awards made to the co-founders due to concerns over the overall quantum and the lack of operational performance measures.
Elevance Health Inc	Shareholder – Governance	Against	We opposed the shareholder resolution to prohibit political funding as the company operates in a highly regulated sector, and we believe that doing so would not be in the best interest of shareholders.

Stock	Proposal	Vote	Rationale
Hoshizaki Corp	Management - Elect Director	Abstain	We opposed the election of the chairman due to the absence of a shareholder vote on the dividend.
Mastercard	Shareholder - Governance	Against	We opposed a shareholder proposal on a report on political contributions because we believe that the company has already taken sufficient action on this issue.
Mastercard	Shareholder – Governance	Against	We opposed a shareholder proposal on a report on the risks associated with the sale and purchase of ghost guns as the company already takes adequate action to ensure that its services are not used for illegal activities and purchases.
Moderna Inc	Management - Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing the re-appointment of the auditors, where the fees for non-audit work are exceed the fee for audit work. We were comfortable with the justification in this instance and decided to support.
Rio Tinto	Management - Climate Related	Against	We opposed the climate action plan. We believe that the company should make more ambitious commitments, including on its scope 3 emissions.
Thermo Fisher Scientific	Management - Remuneration - Say on Pay	Against	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Dodge & Cox – Global Stock Fund (global equities)

Stock	Proposal	Vote	Rationale
Aviva Plc	Management - Approve Climate-Related Financial Disclosure	For	Dodge and Cox will review management and shareholder proposals regarding social and environmental issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Charter Communications, Inc.	Shareholder – Report on Congruency of Political Spending with Company Values and Priorities	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. To the extent not addressed above, Dodge and Cox will review shareholder proposals regarding social, environmental and governance issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Charter Communications, Inc.	Shareholder – Disclose Climate Action Plan and GHG Emissions Reduction Targets	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. In this case, a vote AGAINST this proposal is warranted given that requesting the proponent is requesting the company provide emissions reduction targets and plans to reduce them which goes beyond a report or further data.
Cigna Corporation	Shareholder – Report on Congruency of Political Spending with Company Values and Priorities	Against	Does not relate to human capital or energy transition; past precedent of voting Against.
Comcast Corporation	Shareholder – Report on Omitting Viewpoint and Ideology from EEO Policy	Against	Not material and may cause reputational harm and/or increase the risk of litigation.
DISH Network Corporation	Shareholder – Report on Political Contributions	Against	Non-material and may cause reputational risk.

Stock	Proposal	Vote	Rationale
Meta Platforms, Inc.	Shareholder – Report on Lobbying Payments and Policy	Against	Not material and may cause reputational harm.
Occidental Petroleum Corporation	Shareholder – Report on Quantitative Short, Medium and Long-Term GHG Emissions Reduction Targets	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. The proposal is requesting that emissions reduction targets be set and is not only requesting for a report/data.
UBS Group AG	Management - Approve Climate Action Plan	For	Dodge and Cox will review management and shareholder proposals regarding social and environmental issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Wells Fargo & Company	Shareholder – Adopt a Financing Policy Consistent with IEA's Net Zero Emissions by 2050 Scenario	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. Dodge and Cox expects management to identify and oversee financially material environmental, social, and governance risks and to disclose those risks to shareholders.
Wells Fargo & Company	Shareholder – Oversee and Report a Racial Equity Audit	For	Dodge and Cox generally supports management's decisions regarding a company's business operations. Dodge and Cox support shareholder proposals requesting information or data that enables us to better assess material financial risks to the company around social and environmental issues such as human capital, climate change, and energy transition.

UBS-AM – passive equities

Stock	Proposal	Vote	Rationale
ACC Limited	Management - Re-elect Martin Kriegner as Director	Against	Candidate is not considered independent and the Audit Committee is not made up of at least 2/3 independent directors.
Align Technology, Inc.	Management - Elect Director Joseph Lacob	Against	We do not regard the Board to be sufficiently independent, for which the chair of the nomination process is ultimately accountable.
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.
ENGIE SA	Management - Approve Company's Climate Transition Plan	Against	We have some concerns on the company's transition plan, and the company has not committed to submit their climate strategy to a shareholder vote in the future.
Equinor ASA	Shareholder – Introduce a Climate Target Agenda and Emission Reduction Plan	For	We support the call for the company to set ambitious emissions reduction targets, in line with the objectives of the Paris Agreement.
The Home Depot, Inc.	Shareholder – Report on Steps to Improve Gender and Racial Equity on the Board	Against	The request for additional reporting is reasonable and would enable shareholders to have a better understanding of the company's approach.
The Weir Group Plc	Management - Authorise Issue of Equity	Against	We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.
Woodside Petroleum Ltd.	Management - Approve Climate Report	Against	The Company has not met our expectation in regard to Scope 3, and the use of offsets in the near-term.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	30 November 2022
Title:	Consultation on Climate Change Risk Reporting
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to inform the sub-committee of the Pension Fund's response to consultation from the Department for Levelling Up Homes and Communities (DLUHC).

Recommendations

2. That Hampshire's consultation response is noted.

Executive Summary

3. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. Hampshire has published two annual reports for the Pension Fund based on the TCFD recommendations, which have been reported to the RI sub-committee.

4. In January 2021 the Department for Work and Pensions (DWP) published consultation requiring private sector pension schemes to report based on the TCFD recommendations, starting on a phased basis with the largest funds. DLUHC's consultation, contained in Appendix 1, now proposes the TCFD requirements apply for all LGPS funds for the reporting year 2023/24.

Hampshire's consultation response

5. In general terms Hampshire welcomes the adoption of TCFD reporting into the LGPS regulations, and the LGPS catching up with the requirements already in place for private sector pension funds. Hampshire welcomes consideration of how the LGPS should adopt the TCFD reporting requirements, however in several key areas caution is required including; gaps in data, the challenge of acquiring sufficient knowledge and skills and the costs of mitigating these issues with external support and expertise. Hampshire's full response made by the deadline of 24 November 2022 is contained in Annex 1 to this report.

Climate Change Impact Assessments

6. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

7. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy Responsible Investment | Hampshire County Council (hants.gov.uk).

8. This concerns how the risk of climate change and associated data is reported for the Pension Fund.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a report because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

   The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

   - Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
   - Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
   - Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

   Due regard in this context involves having due regard in particular to:

   - The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
   - Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
   - Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

   Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Appendix 1

Introduction and summary of proposals

1. Addressing climate change is one of the major challenges we face in the UK and globally. The UK government is a world leader in commitments to transition to a low carbon economy and in 2019 set the target of achieving net-zero greenhouse gas emissions by 2050.

2. Investment in more sustainable projects and activities is essential in order to reduce climate change and to mitigate its impacts. Investors will also need to understand and manage the financial risks and opportunities arising from climate change in order to protect and grow their assets and cashflow.

3. To enable investors to make high-quality decisions and to encourage better pricing and capital allocation in markets, high quality disclosures will be needed regarding how their assets will affect and be affected by climate change.

4. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. In November 2020, the government announced the UK's intention to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The joint Government Regulators Taskforce's Interim Report, and accompanying roadmap, published alongside the announcement, sets out an indicative pathway to achieving that ambition.

5. In July 2021, the government went further by announcing its new, economy-wide Sustainability Disclosure Requirements (SDR) regime. This regime will build on the UK's world-leading implementation of the TCFD recommendations and streamline UK sustainability reporting. SDR will be broader than financial risk, extending to environmental impact (including disclosures based on definitions contained in the UK Green Taxonomy), and over time, to factors beyond climate, including broader sustainability factors such as environmental and social considerations.

6. In October 2021, the government published details of the regime, along with an implementation pathway, in its publication Greening Finance: A Roadmap to Sustainable Investing. This announced the intention to set up an endorsement and adoption function in the UK for standards issued by the International Sustainability Standards Board (ISSB). Standards issued by the ISSB will not have any legal force in the UK until they have been endorsed and adopted to ensure that the Standards applied in the UK reflect UK circumstances. The government will consult on proposals for a framework to introduce reporting against IFRS Sustainability Disclosure Standards in the UK in due course. SDR for the LGPS is not covered in this consultation but we will work with the Scheme Advisory Board to develop proposals.

Role of the LGPS

7. The LGPS is one of the largest pension schemes in the UK with 6.2 million members and a significant UK and global investor with £342 billion of assets in 2022. It is locally managed and funded by 86 administering authorities (AAs). The primary purpose of LGPS investments is to meet the scheme's long-term pension liabilities by balancing risk and return appropriately. However, the LGPS's scale and market power give it an opportunity to drive change through the investment chain through asset managers to investee companies.

8. AAs are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in setting their investment strategy. The aim of the proposals in this consultation document is to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by AAs, and that they report transparently on their approach in line with broader UK policy.

9. The government's view is that the requirements for the LGPS should set as high a standard as for private schemes. We have therefore made the requirements for private schemes the starting point for our proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the AAs.

10. The UK Energy Security Strategy was published in April 2022 and emphasises the importance of investment in energy by the private sector to improve energy security and support the transition to clean energy.
The LGPS has an important role to play as a major investor with a commitment to stewardship and engagement. These proposals seek to support that approach to addressing high carbon emissions and discourage any pursuit of lower emissions through withdrawing investment from energy companies.

Summary of proposals

11. The new requirements on which we are consulting are discussed throughout this document. For ease, we have summarised the key proposals below.

Area	**Proposal**
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the

Area	Proposal
	regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below. Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions. Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report. Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**,

Area	Proposal
	Estimated or Unavailable. Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner. Metrics must be measured and disclosed annually.
Targets	AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.
Disclosure	AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.
Scheme Climate Report	We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.
Proper advice	We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

*This refers to reported emissions calculated in line with the GHG Protocol and verified by a third-party.
**This refers to reported emissions calculated in line with the GHG Protocol without verification by a third-party.

12. The remainder of this chapter sets out the background to the proposals. In chapter 2, the proposed actions to be undertaken by LGPS AAs are discussed, and chapter 3 sets out the disclosure requirements. Chapter 4 discusses other issues, including our proposal for a Scheme Climate Report and the role of the LGPS asset pools. A summary of the consultation questions is at the end of the document.

Background

The TCFD recommendations

13. The TCFD is a global, private sector led group assembled in December 2015 at the instigation of the Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system. Following extensive public consultation, they published their recommended disclosures in June 2017.

14. The recommendations were designed to be adoptable by all organisations, including those inside and outside the financial industry, from asset managers to asset owners, including banks, insurers and pension schemes.

15. The TCFD designed the set of recommendations as a flexible framework for these organisations. The framework is meant to produce decision-useful, forward-looking information on the financial impacts of climate change. It is also meant to accommodate continued rapid evolution in climate-related modelling, management, and reporting.

16. The final report included 11 recommendations. These are split into Governance, Strategy, Risk Management, and Metrics and Targets.

Core elements of recommended climate-related financial disclosures

Governance: The organisation’s governance around climate-related risks and opportunities.

Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning.

Risk Management: The processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Benefits of the TCFD recommendations for the LGPS

17. A TCFD-aligned approach to climate risks will offer the opportunity for LGPS AAs to build on the relatively high-level requirements of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016. It permits them to demonstrate how the consideration of climate change risks and opportunities are integrated into the AA’s entire decision-making process.

18. Carrying out scenario analysis, reporting on appropriate metrics that include greenhouse gas emissions, and setting appropriate targets, would provide valuable inputs to inform an AA’s investment strategy. It would also allow AAs to monitor and review progress and to make amendments to the investment strategy where necessary. Disclosing this information would provide greater transparency to members and taxpayers about how their money is being managed.

19. The flexible structure of the TCFD recommendations also allows AAs to continuously improve climate risk governance and reporting in the light of rapidly increasing data quality and completeness and emerging best practice.

20. Many aspects of the tools and data used for climate-related analysis are still in development, but AAs can take substantive action now to address climate risk and to report on it as part of their duties to scheme members, employers and the public. There are already enough data, analysis and tools to effect real change when AAs use the data to manage risks and opportunities.

Comparison with regime for private pension schemes

21. The Department for Work and Pensions (DWP) has already introduced requirements on climate risk management and reporting for private pension schemes, in regulations which came into force on 1 October 2021. Implementation will be staged for private pension schemes. Private schemes with £5 billion or more in assets were immediately in scope, with those with £1 billion or more to follow in October 2022. Schemes with less than £1 billion in assets are not currently covered. The DWP has published statutory guidance on the requirements.

22. DWP's intention to implement the UK's new Sustainability Disclosure Requirements (SDR) regime for private pension scheme is outlined in Greening Finance: A Roadmap to Sustainable Investing. SDR requirements for the LGPS are not covered by this consultation.

23. The proposals set out in this consultation are broadly similar to the requirements for private pension schemes, and encompass the same four areas of governance, strategy, risk management and metrics and targets. However, a key difference is that our proposed requirements will apply to all LGPS AAs from 2023/24 regardless of fund size. Currently the assets held by LGPS funds range from around £0.5 billion to £25 billion with 65 funds holding less than £5 billion and 8 funds holding less than £1 billion.

24. We recognise that larger LGPS funds are likely to have more capacity to meet new requirements than smaller funds. However, our view is that it would not be right to stage implementation within a single pension scheme in which all funds face climate risks, are democratically accountable and subject to high external scrutiny. We also believe that the LGPS asset pools can play a key role in supporting implementation (see discussion in Chapter 4).

25. Another key difference is the proposed requirement to report data quality as a mandatory metric. This aims to help the LGPS use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in raising the quality of climate risk management.

Other relevant regulated areas

26. Pension schemes sit at the top of an investment chain, whereby the assets are usually invested in products via a financial intermediary, who may then invest directly in products such as equities. Therefore, schemes rely on high quality data being provided up the chain to produce meaningful climate related disclosures. In preparing these proposals we have been mindful of regulation in other areas which may impact the ability of LGPS AAs to carry out the requirements.

27. The Department for Business, Energy and Industrial Strategy (BEIS) has consulted on TCFD-aligned regulations for certain publicly quoted companies, large private companies, and Limited Liability Partnerships (LLPs). The requirements came into effect in April 2022[footnote 1].

28. The Financial Conduct Authority (FCA) have introduced a new listing rule and guidance which requires commercial companies with a UK premium listing to include a compliance statement in their annual financial report. This statement must indicate whether the company has made disclosures consistent with the recommendations of the TCFD or provide an explanation if it has not done so.

29. In addition, the FCA has introduced TCFD related rules and guidance at the portfolio and entity level for asset managers, life insurers, and FCA-regulated pension providers. This is particularly relevant to the LGPS as some of

the LGPS asset pools will be subject to these requirements in their capacity as asset managers.

30. The Pensions Regulator (TPR) also has a role in this area. It has published guidance intended to help trustees of private sector occupational pension schemes. While TPR has no remit regarding the investments of LGPS funds, their advice and guidance may be useful for LGPS AAs wishing to adopt best practice. In addition, TPR has a role in overseeing the governance of LGPS AAs, which would include the governance requirements outlined here.

31. Our proposals are intended to facilitate consistency across the investment chain and take account of these consultations and requirements by other regulators.

32. Finally, we view these proposals as the first step on the journey to implementing in full the new UK Sustainability Disclosures Regime, announced by the then Chancellor in July 2021.

Proposed requirements

33. The TCFD recommendations cover requirements in four areas: governance, strategy, risk management, and metrics and targets. In this chapter, we discuss how these recommendations can be implemented in the LGPS, taking account of its existing structure and framework. We also set out our proposed requirements for AAs. Proposals on disclosure in relation to each area are discussed in Chapter 3.

34. The proposed requirements relate only to the assets and liabilities in respect of the pension scheme and not to other AA activity. For example, emissions caused by travel to meetings, or office provision, would not need to be disclosed as they are not directly attributable to the assets of the LGPS.

Governance

35. The TCFD recommendations on governance aim to place development of a robust climate governance framework at the centre of an organisation's operations. The framework itself is designed to be adoptable by all organisations and easily translatable into sector-specific arrangements.

36. For LGPS AAs, however, we believe that the governance requirements in particular may require some adjustment in order to reflect the nature of their existing governance.

37. The role of the AA's scheme manager is broadly similar to that of the board, as described in the TCFD recommendations. The scheme manager of an LGPS AA usually takes the form of a pensions committee, and is assisted by the local pensions board. The scheme manager is accountable for funding strategy, investment strategy, asset allocation, and overall risk management. It

will therefore be responsible for the assessment and management of climate risks and opportunities in relation to the investments. The LGPS asset pool in which the AA is a partner, in turn, is responsible for implementation of the investment strategy except in respect of non-pooled assets which remain with the fund.

38. Decisions on investment matters may therefore be taken by the scheme manager, informed by advice from external advisers and officers, or delegated to an officer or to the pool. All have important roles in effectively assessing and managing climate change risk and opportunities, and all will be central to the AA's efforts to fully embed climate risks into their governance processes.

39. The scheme manager will need to appoint properly qualified advisers, fully consider their advice, and take appropriate action in order to address these risks. The committee's officers and advisers and the pool, where appropriate, will need to provide advice which is accessible for non-specialists and adequately addresses climate risks to the fund, bringing in additional expertise where needed. We propose to provide statutory guidance to assist AAs. The role of the LGPS asset pools and knowledge and skills requirements are discussed further in Chapter 4.

40. However, we are not proposing to place any legal duties on individuals, whether officers or advisers, or on the pool. Our proposal is to place new duties on AAs to:

- establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities
- establish and maintain processes by which they can, on an ongoing basis, satisfy themselves that those who undertake climate-related governance activities, advisors, and those who assist the AA (including officers and advisors) with respect to climate related governance are doing so effectively.

Question 1: Do you agree with our proposed requirements in relation to governance?

Strategy

41. The TCFD's recommendations on strategy are intended to promote continuous assessment of the implications of climate change for an organisation's strategy.

42. For AAs, climate risks will be relevant to both their investment and funding strategies. AAs will need to consider what physical and transition risks and opportunities may affect both strategies and over what time periods. These may include a wide range of factors, including carbon pricing, adoption of new technology or lower carbon alternatives, and extreme weather events.

43. AAs will also need to assess the impacts of the identified risks and opportunities over the same time periods on their strategies. They also need to consider what actions to take in response. The assessment will need to take account of the materiality of the risks, and the liquidity and time horizon of the assets, as well as the cashflow and liabilities of the fund. It will be for the AA to determine the appropriate time periods and to take a view on materiality of risks taking account of these factors.

44. We propose to provide statutory guidance to assist AAs to identify risks and opportunities, and to assess the impacts, including consideration of factors to be taken into account.

45. Our proposal is to place new duties on AAs to:

- identify, on an ongoing basis, climate-related risks and opportunities that will impact the investment and funding strategy of the AA, over the short, medium and long term.
- assess, on an ongoing basis, the impact of the identified risks and opportunities on the AA's investment and funding strategy.

Question 2: Do you agree with our proposed requirements in relation to strategy?

Scenario analysis

46. The TCFD recommends that organisations undertake scenario analysis in order to improve the quality of strategies. It recommends that organisations consider credible, distinctive, and relevant scenarios for the future path of climate change and that they test the assessment of impacts and the proposed actions against these scenarios.

47. Scenario analysis is particularly relevant to AAs seeking to assess the medium- and long-term impacts of climate change on their assets, liabilities and strategies. These longer-term potential impacts, as well as sudden events such as climate tipping points, may not be captured by traditional risk management, particularly where there are high levels of uncertainty. Scenario analysis can also help to create and maintain strategies which take full account of climate risks and opportunities.

48. We recognise that at present the use of climate scenarios is still new and that current assumptions and methodologies vary. Data quality and availability may also be a problem particularly for some asset classes. Nevertheless, we expect the development of expertise, methodologies, and data to accelerate rapidly in the next few years and hope to see greater consensus in the future.

49. We therefore propose that regulations would require AAs to conduct scenario analysis as far as they are able to. This analysis may be qualitative or quantitative, but we would expect AAs to carry out quantitative analysis where

possible and to expand the assets covered by quantitative analysis as quickly as possible.

50. We also propose to provide statutory guidance on scenario analysis to assist AAs, including guidance on dealing with missing or poor-quality data and other barriers. We would expect AAs to aim to do the best scenario analysis that they can, and to aim to improve their scenario analysis over time.

51. The TCFD also recommends that organisations consider a range of climate scenarios, including a scenario based on global temperatures increasing by 2°C or lower over pre-industrial levels. The 2° or lower scenario is important because this level of temperature rise is believed to limit catastrophic physical risks such as flooding and droughts, but there may still be significant short term transition risks due to changes to policy, technology and markets. Scenarios based on higher temperature rises may see more impacts from physical risks both in the short and long term, with lower transition risks.

52. We therefore believe that AAs must consider two or more climate-related scenarios, at least one of which must be a scenario of 2°C or lower temperature rise. AAs will need to assess their assets and liabilities, and their investment and funding strategies against these scenarios.

53. Investment and funding decisions are made triennially in accordance with the valuation cycle. As scenario analysis should feed into these decisions, we recommend that it is incorporated into the valuation cycle and carried out at least every three years. In the interim years, AAs should consider whether a new scenario analysis should be carried out to reflect any changes in the fund. In a normal year, where there have been only minor changes in the scheme, we would not expect AAs to repeat scenario analysis given it is a substantial piece of work.

54. We propose to place a new duty on AAs to:

- assess their assets, liabilities, investment strategy and funding strategy against climate risks and opportunities in at least two climate scenarios. This assessment must include at least one scenario based on a global temperature rise of 2°C or lower on pre-industrial levels. This assessment must occur at least once every valuation cycle. In interim years, AAs must consider whether any changes in the fund have been substantial enough to require scenario analysis to be repeated.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Risk management

55. The TCFD's recommendations aim to ensure that risk management in relation to climate risks is rigorous, comprehensive, and fully integrated into wider risk management.

56. In line with the TCFD recommendations, we propose that regulations require that AAs identify and assess their fund’s exposure to climate-related risks and take action to manage the risks identified. This will include consideration of both physical and transition risks and the materiality of those risks, as well as proximity and likelihood.

57. This means having effective processes for identifying climate-related risks and opportunities, and assessing their likely impact on assets, liabilities, investment and funding strategies. We propose that guidance will support AAs in ensuring they have the most appropriate processes in place and that they consider the full range of relevant factors and types of risk and opportunity.

58. AAs will already have risk management processes in place to manage investment risks. We therefore propose to require AAs to integrate these climate-related processes in their existing risk management processes. AAs may also wish to identify, assess and take action on climate-related opportunities, and integrate the consideration of these opportunities in their risk management. We propose to provide statutory guidance to assist AAs.

59. Our proposed requirements are for AAs to:

- Establish and maintain processes for the purpose of enabling them to identify and assess climate-related risks.
- Establish and maintain processes for the purpose of enabling them to effectively manage climate-related risks.
- Ensure, on an ongoing basis, climate-related risk management processes are integrated into their overall risk management.

Question 4: Do you agree with our proposed requirements in relation to risk management?

Metrics

60. The TCFD recommends that organisations select and disclose metrics to assess and monitor climate risks and opportunities over time. This section discusses the various metrics under consideration.

61. We propose to require AAs to measure and disclose four metrics: Total Carbon Emissions, Carbon Footprint, Data Quality and a Paris Alignment Metric. Total Carbon Emissions and Carbon Footprint both use emissions which can be divided into Scope 1, 2 and 3. The metrics relate to assets held by the AA in respect of paying benefits, not to other activity carried out by the AA such as travel.

Scope 1, Scope 2 and Scope 3 emissions

62. Scope 1 emissions are all direct emissions from the activities of an organisation or activities under its control. These emissions include fuel combustion on site such as gas boilers.

63. Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy which is eventually used by the organisation.

64. Scope 3 emissions are all other indirect emissions from activities of the organisation, occurring from sources that they do not directly control. These are sometimes the greatest share of a carbon footprint, covering emissions associated with business travel, procurement, production of inputs, use of outputs, waste, and water.

65. Scope 1 and Scope 2 emissions are much more widely available and reliable statistics, which are highly desirable features in understanding an asset's carbon exposure. Scope 3 emissions are less widely reported, and when they are reported, they are often calculated on an approximate basis.

66. For many assets, Scope 3 will be by far the largest single category of emissions, and therefore excluding Scope 3 would significantly underreport total emissions. Excluding Scope 3 emissions will also favour some industries such as online retailers which have low Scope 1 and 2 but high Scope 3 emissions.

67. Therefore, in including Scope 3 emissions in reporting there is a trade-off. Reporting a figure which includes Scope 3 emissions is subject to more inaccuracy than Scopes 1 and 2. However, we propose to require reporting on all three types of emission as this gives the fullest picture of carbon exposure.

Absolute emissions metric: Total carbon emissions

68. Absolute emissions metrics measure the overall carbon emissions attributable to the fund's invested assets. A figure for total carbon emissions enables the AA to set a baseline for climate action and to understand the scale of the climate impact of its investments. Without a clear baseline, AAs cannot assess the impact of different scenarios.

69. We propose to require AAs to obtain, as far as they are able to Scope 1, Scope 2 and Scope 3 GHG emissions for the fund's assets – that is, the pension scheme's financed emissions. These are the emissions referred to as category 15 (investment emissions) in the Greenhouse Gas (GHG) Protocol Technical guidance. This measure is referred to as Total Carbon Emissions.

70. We propose that Scope 1, Scope 2 and Scope 3 emissions should be recorded separately and that the sum of the three should also be reported.

Therefore, four figures should be reported to comply with the Total Carbon Emissions Metric.

71. There are different methodologies for attributing carbon emissions to investments. We propose to clarify the appropriate methodology in supporting guidance.

72. We propose that Total Carbon Emissions is calculated and reported annually via the Climate Risk Report (see Chapter 3).

73. The Total Carbon Emissions should be reported at the level of the whole of the fund. That is, it should be the total of the carbon emissions of all of the investments it holds. If the AA wishes, they may wish to consider the Total Carbon Emissions for each of its investments separately as well, as doing so may give the AA a clearer picture of where its carbon exposures lie. However, investment level reporting is not required in the annal Climate Risk Report.

Emissions intensity metric: Carbon footprint

74. Absolute emissions are a useful baseline to assess the fund's overall carbon exposure. However, they are hard to compare across assets and across funds, because larger investments naturally will have larger emissions.

75. We therefore propose that an Emissions Intensity Metric is calculated in addition. This should be calculated by dividing the Total Carbon Emissions by the total assets held by the fund for which data was available or estimated. This calculation we refer to as Carbon Footprint.

76. Carbon Footprint is easier to interpret as it does not depend on the size of the investment. A disadvantage of this metric however is that an increase in market capitalisation or revenue, all else being equal, will result in a decrease in the AA's emissions per £ million invested.

77. As explained above, using Scope 1 and 2 emissions only produces a more reliable but less complete picture of carbon exposure. We propose that Carbon Footprint is reported for Scope 1, Scope 2 and Scope 3 emissions, in each case calculated as Scope X Emissions divided by Assets for which Scope X emissions were available or estimated.

78. We propose that Carbon Footprint is calculated and reported annually via the Climate Risk Report (see Chapter 3).

79. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

80. We propose that funds should report Carbon Footprint, however if they cannot do so they should report another similar metric such as Weighted Average Carbon

Intensity. In these cases, the administering authority should explain why they have done this.

Data quality and the data quality metric

81. The lack of available data is a commonly reported pitfall when schemes seek to calculate the TCFD’s emissions metrics. Few, if any, AAs will be able to obtain full underlying data to allow the calculation of metrics across their whole fund at present.

82. Where gaps in data do exist, it should be regarded as preferable to use modelling or estimation to fill them, rather than to leave them unaddressed or reporting as null. Beginning with estimated or proxy data can help identify carbon-intensive areas within investments. This also serves as a benchmark for asset-specific data points as and when they become available. AAs may choose to calculate metrics and set targets only for assets for which reliable data can be found. AAs may also request that service providers analyse their funds using market average techniques and assumption-based modelling.

83. We regard the inevitable gaps in data as being an important part of the challenge AAs face. We believe that the level of certainty in the data should be understood by those making decisions and should also be visible externally.

84. We also believe that the LGPS can play its part in increasing data availability and quality through increasing transparency on data quality and by adopting metrics consistent across the LGPS and private pension schemes. We therefore propose that regulations require that AAs obtain data on data quality as far as they are able and calculate a data quality metric. We also propose that guidance should set out how AAs should assess and disclose the quality and availability of data.

85. We propose that AAs should state the percentage of the value of their assets for which emissions have been Verified, Reported, Estimated or are Unavailable.

86. “Verified” and “Reported” are defined as data produced using the methodology for reporting and verifying carbon emissions given in the GHG protocol. Data can be verified by an independent third party, not necessarily an audit firm. “Estimated” includes data which has been estimated, for example using industry averages or modelling based on assumptions.

87. Where an asset has associated emissions data but the data quality as defined above cannot be confirmed, then it should be classed as estimated. “Unavailable” means that emissions data was unavailable, not that confirmation of the data quality was unavailable.

88. The data quality metric should be reported for Scope 1, Scope 2 and Scope 3 emissions separately.

89. The data quality metric on its own does not replace proper scrutiny of data. Examples of this include data which is "reported" but may not have been reported recently and it may not be completely clear whether emissions relate to a whole company or a subsection of it. "Unknown" data may be known to the company but not submitted to investors. AAs are encouraged to ask questions of their fund managers to be effective stewards of their data. Third party firms may be used to investigate and summarise issues such as these into an overall narrative to be included in the Climate Risk Report.

90. We propose that only the top-level figure for each Scope of emissions is required to be produced and reported by AAs in the Climate Risk Report.

Paris alignment metric

91. The TCFD's guidance recommends that financial institutions should describe the extent to which their activities are aligned with a well-below 2°C scenario (i.e. with the goals of the Paris agreement), which is consistent with net zero carbon emissions by 2050. 92. We propose to introduce a requirement that the LGPS AAs should report a Paris Alignment Metric in line with the TCFD's recommendation.

93. Paris Alignment Metrics look at the future trajectory of emissions, whereas Total Carbon Emissions and Carbon Footprint only measure emissions which have already taken place. Forward-looking metrics such as Paris Alignment are more useful for active decision making than historic ones. They will be key to investors robustly assessing and reporting their portfolios' alignment with their own climate goals and may help address exposure to transition risk. They are also useful for plotting trends over time.

94. There are multiple ways to report Paris Alignment Metrics, which are explored in the Portfolio Alignment Team's Measuring portfolio alignment: Technical Considerations, which was commissioned by the TCFD. This states that financial institutions should use whichever portfolio alignment tool best suits their institutional context and capabilities, and describes three main types of portfolio alignment metrics, as follows:

- binary target measurements: This tool measures the alignment of a portfolio with a given climate outcome based on the percentage of investments in that portfolio that either have declared net zero/Paris-alignment targets or are already net zero/Paris-aligned.
- benchmark divergence models: These tools assess portfolio alignment by comparing the forecast emissions performance of investments or counterparties in the portfolio against benchmarks.
- implied temperature rise (ITR) models: these tools translate an assessment of alignment with a benchmark into a measure of the consequences of that alignment in the form of a temperature score.

95. These metrics are ambitious and if calculated reliably can create an extremely useful picture of a fund's climate risks. ITR in particular links a portfolio to a specific climate outcome in a way which is scientific, incentivises action and is comprehensible to the lay audience.

96. The main problem with Paris Alignment Metrics is data, as in most cases only limited or approximate data is available. At best this means only a partial view is possible, and at worst it can create a false picture of the true exposure of a fund by over- or underestimating the metric.

97. However we believe that an imperfect metric will still be useful. Calculating ITR will be useful for funds to understand their carbon trajectories. Moreover, the more funds choose to calculate the ITR the faster the data will improve.

98. The LGPS has a responsibility to its members, employers and the public, and the Government considers it important that publicly accessible data is accurate and as useful as possible. In addition, it is useful for funds to report consistently with each other and for the results to be possible to aggregate into an overall scheme view for the LGPS.

99. We regard the Binary Target Measure to be the most appropriate for the LGPS at this point having taken these factors into account. It is simple to understand while still providing useful insights, and less subject to the data issues which exist for the other metrics. As data improves, the Government may change its approach to reflect this, and we encourage the LGPS and the sector to take a lead in promoting the most useful metrics.

100. Therefore, we propose that all AAs should report the percentage of their total assets with declared net zero or Paris-aligned targets. This is the Binary Target Measurement described above.

101. We also encourage AAs to calculate other Paris Alignment Metrics which they consider to be useful in managing their climate risks. We note that it is not only the commitment to net zero but also the pathway towards net zero which dictates Paris-alignment. For instance, a company may have made a net zero commitment, but still be making insufficient emissions reductions in the short term. For this reason, AAs should consider whether collecting and reporting an additional Paris Alignment Metric would be useful.

102. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

Other metrics

103. We have proposed requirements for four metrics. However, we do not intend to limit the range of additional and more ambitious metrics AAs may select. The

Government encourages AAs to calculate other metrics which are endorsed by the TCFD, such as Climate Value at Risk (VAR)[footnote 2].

Guidance and regulation

104. We propose that the requirement to publish metrics is set out in regulations, but that the metrics themselves are defined in statutory guidance. This has the advantage that as metrics become more available and accurate over time, changes may be made to update the metrics without amending regulations.

Summary of metrics proposals

105. We propose to require AAs to calculate and report the following metrics:

- Metric 1 (absolute emissions metric) - Total Carbon Emissions, which includes the Scope 1, 2 and 3 emissions reported separately, as well as the sum of the three.
- Metric 2 (emissions intensity metric) - Carbon Footprint. This is Carbon Emissions divided by the total assets of the fund to which the data relates. It should be calculated separately for Scope 1, Scope 2 and Scope 3 emissions.
- Metric 3 (data quality metric) – the percentage of assets for which Scope 1, 2 and 3 emissions are verified, reported, estimated or unavailable, in line with the GHG Protocol.
- Metric 4 (Paris Alignment Metric) – the percentage of the fund's assets for which a public Paris aligned commitment has been made, i.e. net zero by 2050.

106. We also propose to recommend in statutory guidance that AAs consider whether they wish to calculate any other climate related metrics recommended by the TCFD in order to inform assessment of climate risks.

Question 5: Do you agree with our proposed requirements in relation to metrics?

Targets

107. The TCFD recommends that organisations set targets based on the metrics they select, including a target date, baseline and performance indicators, in order to focus efforts on managing climate risk.

108. The metrics proposed support AAs to assess the current climate risks and opportunities to their assets. Targets will assist AAs to take the next step to set their strategy for managing climate risks and opportunities to the fund and to measure their progress, as well as increasing accountability.

109. We therefore propose that regulations require at least one target to be set either for one of the mandatory metrics listed above or another TCFD-endorsed

metric. This additional metric may be one of the more ambitious climate-related metrics, such as Climate VAR or Implied Temperature Rise, but must be limited to metrics endorsed by the TCFD or any of the mandatory metrics.

110. We also propose that AAs should be required to measure and report performance against their targets annually, as far as they are able, as for the requirement on obtaining data. This recognises that measuring and disclosing performance is dependent on data provided by others in the investment chain, in the same way as the requirement to obtain data for metrics. In order to ensure that targets are used and kept up to date, AAs will also be required to consider annually whether to continue with the target or replace it. We propose to provide statutory guidance to assist AAs.

111. Our proposed requirements for AAs are:

- AAs must set a target for their fund in relation to one of the metrics which they have selected. The target may be in relation to one of the mandatory metrics (absolute emissions, emissions intensity, data quality or Paris alignment), or any other climate-related metric endorsed by the TCFD which the AA chooses.
- AAs must annually measure, as far as they are able, the performance of their fund against the target they have set and taking into account that performance, determine whether the target should be retained or replaced.

112. There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.

Question 6: Do you agree with our proposed requirements in relation to targets?

As far as able

113. We propose that AAs must carry out scenario analysis, obtain data, calculate, and use metrics and measure performance against AA-set targets ‘as far as they are able’. This means that AAs are expected to take all reasonable and proportionate steps given costs and time constraints. However, we recognise that there will inevitably be some gaps in the work produced, and while we would expect AAs to do as much as they can we recognise that some elements are outside of their control. Therefore, where authorities are not able to comply with these proposals, they must include in their report both the areas and reasons where they are not able to comply in full.

114. The requirement for AAs to comply as far as they are able will enable them to produce metrics for only part of the portfolio or using estimation or incomplete data sets. This will still be decision-useful information for AAs. The urgency of climate change means that the AAs cannot wait until they have perfect data before they start putting it to use.

Ongoing and annual duties

115. We distinguish between ongoing and discrete duties. For duties which are regular discrete events such as reporting, we have proposed specific time intervals for AAs to follow. Ongoing duties on the other hand are those which do not take place as a distinct event but a continuous requirement. For example, AAs should always be managing the risks of the fund, and so we would think of risk management as an ongoing requirement. In practice, we recognise that these requirements will be considered at regular intervals as well, but the requirement itself would be ongoing.

116. All duties are ongoing, except requirements to conduct scenario analysis, calculate metrics, and set and review performance against targets.

117. Scenario analysis must be carried out in the reporting year 2023/24 and at least every three years thereafter. In the intervening years, AAs should review whether circumstances have changed enough to refresh their analysis. This decision should take account of availability of data, or a significant change in investment or funding strategy. AAs should explain in their Climate Risk Report whether they have carried out a new analysis, and if not give a short explanation as to why.

118. Underlying data for metrics and targets must be obtained, the metrics calculated, and performance against targets measured, at least annually.

Reporting on climate risks

119. High quality reporting on climate risks is central to the TCFD's recommendations. The aim is to enable stakeholders to understand as fully as possible their climate exposures and the AA's approach to addressing those risks, in the short, medium and long term. Transparency will also enable users of the reports to measure and monitor current performance against targets and the planned trajectory and to assess the implications for future performance.

120. To achieve these aims in the LGPS, reporting will need to be clear, comprehensive and consistent, as well as timely, verifiable and comparable across the sector, in line with the TCFD's principles for effective disclosure[footnote 3]. This chapter sets out our proposals ensuring that reporting both at AA and at scheme level meets these standards, and delivers proper accountability to members, locally and across the scheme.

Annual climate risk report

121. We propose that each AA publishes a Climate Risk Report every year, at the same time as the AA's annual report is published – i.e. 1 December for the reporting year which ended the previous 31 March. Once published, the Climate Risk Report must be easily and freely accessible online and members must be informed of where to find it. In addition, links to each AA's Climate Risk Report will

be included in the Scheme Climate Report and may be shown on the Scheme Advisory Board's (SAB) website. The Climate Risk Report may be a constituent part of the AA's Annual Report, or a standalone report.

122. This means that the first report for the year 2023/24 must be available by 1 December 2024.

123. The Climate Risk Report should be accessible to two distinct types of user: specialist and non-specialist. The Climate Risk Report will contain detailed and useful data, and we hope that the metrics, targets and scenario analysis in particular will be important resources for specialist audiences. This role of the Climate Risk Report may require it to be technical in content, and dense with information.

124. In addition, various non-specialist stakeholders including scheme members, members of the public and other parties will also need to be considered. The Climate Risk Report should include enough information to be understood by the lay reader.

125. The AA will have to decide on how best to approach these dual requirements. One approach is to split the Climate Risk Report into two sections: a body and a short executive summary. The executive summary would be written to explain the AA's approach and high-level findings to the lay reader. This allows the body of the Climate Risk Report to be technical as is useful to specialist audiences. We regard this as a very effective way to address this balance, although other approaches would also be valid.

126. We would like to stress that the narrative provided in the Climate Risk Report will be as valuable as the data for most audiences. Metrics by themselves are difficult to interpret for the lay reader.

127. For example, differences in an AA's investment allocation, such as its strategic allocations between the main asset types will affect its carbon emissions. Moreover, a high carbon exposure or poor alignment with the Paris climate goals may be managed by effective stewardship and engagement from the AA. AAs should ensure that messages such as these are presented in a way to help the lay reader interpret the report and understand the fund's strategy towards managing the risks from climate change.

128. It is important that the report must be easily accessible to scheme members, on the AA's website and via an internet search. We propose that AAs must at least inform members of the Climate Risk Report and how to find it when they issue their annual benefit statements. This does not necessarily mean including wording in the annual benefit statement itself.

129. Climate Risk Reports should be produced in line with the Local government transparency code 2015.

130. We propose that the Climate Risk Report must include the following information:

Area	Disclosure Requirement
Governance	Describe the AA’s oversight of climate-related risks and opportunities Describe the role of any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done Describe the role of any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken
Strategy	Describe the climate-related risks and opportunities which the scheme manager has identified Describe the scheme manager’s definition of short term, medium term and long term
Scenario Analysis	Describe the most recent scenarios the scheme manager has analysed Describe the impact of the climate-related risks and opportunities on the AA’s investment and funding strategies Describe the potential impacts on the AA’s assets and liabilities which the AA has identified in the most recent scenarios and the reason for any data which is missing from the analysis Describe the resilience of the AA’s investment and funding strategies in the most recent scenarios the AAs have analysed
Risk Management	Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund Describe the processes which the AA has established for managing climate-related risks to the AA Describe how these processes are integrated into the AA’s overall risk management

Area	Disclosure Requirement
Metrics	Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)
Targets	Report the target which the AAs have set and the performance of the AA against that target.

Question 7: Do you agree with our approach to reporting?

Scheme climate risk report

131. In addition to the Climate Risk Reports published by each AA, we are proposing an annual Scheme Climate Risk Report to provide an overview of the LGPS and climate risks, produced by the Scheme Advisory Board (SAB). Such an overview would be useful for scheme members and other stakeholders. It would also enable the LGPS to demonstrate progress and impact, and showcase good practice.

132. We therefore propose as a minimum that the Scheme Climate Risk Report would include links to each AA's Climate Risk Report and the four aggregated metrics for the whole LGPS.

133. In relation to metrics, we propose that Total Carbon Emissions and Carbon Footprint should be calculated and reported at an aggregate level. This would involve a simple sum of Total Carbon Emissions for Aggregate Total Carbon Emissions. In order to calculate Aggregate Carbon Footprint, this would be calculated as Aggregate Total Carbon Emissions divided by the overall size of the LGPS investment portfolio for which total emissions are at least estimated. This would be done separately for Scope 1, Scope 2 and Scope 3 emissions.

134. When reporting the data quality metric, each AA must report the proportion of its assets for which overall emissions data is: Verified, Reported, Estimated or Unavailable. One reason that we have proposed this metric is that it can be aggregated across AAs. As risk management is a key objective of TCFD reporting, we believe that visibility of data quality, which is essential to the understanding of risk, will be a useful way to measure progress. Therefore, we propose to show overall data quality in the Scheme Climate Report, whereby the LGPS's entire assets will be divided into verified, reported, estimated and unknown.

135. We propose that the SAB reports on an aggregate Paris Alignment Metric based on AA level reports. This would show the proportion of the value of the whole LGPS's assets for which there is a net zero commitment in line with the Paris goals.

136. In the above paragraphs we have outlined our minimum proposals for the Scheme Climate Risk Report. In addition, we are inviting views about whether emissions, data quality and Paris-alignment metrics for each AA should be shown in the Scheme Climate Risk Report.

137. Emissions and data quality metrics will already be available in the Climate Risk Reports published by each AA and it will be possible to make comparisons between AAs. AAs may be concerned about being compared unfairly, and may fear that this may lead to pressure to reduce emissions through divestment. There is no expectation from Government that AAs should reduce emissions via divestment.

138. We recognise that transparency is an important feature of the LGPS's approach to managing climate risks. It is important for all those to whom the Scheme is accountable have easy access to climate-related information.

139. We do not propose to include any aggregate data on the scenario analysis requirement. This is because scenario analysis may be very difficult to aggregate in a meaningful way.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Other issues

140. This chapter deals with a number of other issues relevant to the implementation of the TCFD recommendations in the LGPS.

The role of the LGPS asset pools

141. Since 2015, 8 LGPS pools have been set up with the aim of securing the benefits of scale including more professional management, reduced investment costs, increased net returns, improved resilience, and access to a wider range of assets, including infrastructure. Many of the pools have developed significant capabilities in relation to climate risks and responsible investment more broadly.

142. As of March 2021 around 80% of the Scheme's assets are either pooled, in a transition plan to be pooled, or have some oversight by their pool, although the proportion varies widely across AAs and across pools. For pooled assets, we expect that the pools will be able to provide data, calculate metrics and carry out scenario analysis on these assets where that data is available. There are differing views on the extent to which pools will be able to deliver these services for assets that are not held by the pool, especially where there are already contracts with data providers in place. Some pools will already be able to provide advice on data, metrics and scenario analysis and other relevant issues or will wish to develop or jointly commission such advice.

143. In this landscape there is potential for a multiplicity of different analyses and reports to be required on the same LGPS assets. Pool operators are required to report on climate risks in relation to pooled assets by the Financial Conduct Authority. If AAs' strategies significantly differ it will be resource intensive for their pool to produce analysis for them.

144. We expect to see this issue reduce in importance over time as more assets transition into the pools. AAs which have transferred close to 100% of their assets excluding cash to their pools would be able to use the analyses conducted by their pool for their own purposes. AAs could also minimise this issue by aligning their strategies and targets within their pool and ensuring as shareholders that the pool's strategy also aligns with that of the partner AAs. This would enable AAs to commission their pool to conduct analyses for both pooled and non-pooled assets on a consistent basis with the pool's own reporting. Both completing transition and aligning strategies would also have significant wider benefits for costs and performance through delivering greater scale.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Guidance and reporting template for administering authorities

145. DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.

146. The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements, and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.

Question 10: Do you agree with our proposed approach to guidance?

Knowledge, skills and advice

147. It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.

148. Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager,

who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.

149. AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

Consideration of impact on protected groups

150. Section 149 of the Equality Act 2010 requires Government to have due regard to the potential impact of new decisions, policies or policy changes on particular groups with protected characteristics and to avoid disproportionate negative impacts (the public sector equality duty).

151. We have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits. We have considered whether the reporting requirements could give rise to negative impacts on certain groups with protected characteristics and believe they would not. However, administering authorities and the Scheme Advisory Board are also subject to the public sector equality duty and we would expect them to take steps to ensure compliance with the duty, including that their reports under these proposals are available in accessible formats.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

Summary of consultation questions

This section contains a summary of the questions contained above, for ease.

Question 1: Do you agree with our proposed requirements in relation to governance?

Question 2: Do you agree with our proposed requirements in relation to strategy?

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Question 4: Do you agree with our proposed requirements in relation to risk management?

Question 5: Do you agree with our proposed requirements in relation to metrics?

Question 6: Do you agree with our proposed requirements in relation to targets?

Question 7: Do you agree with our approach to reporting?

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Question 10: Do you agree with our proposed approach to guidance?

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	30 November 2022
Title:	RI consultancy review
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the first part of analysis that has been commissioned by the Pension Fund from the RI consultants MJ Hudson.

Recommendations

2. That the RI sub-committee note the advice from MJ Hudson for the Hampshire Pension Fund in achieving its aim for net-zero green-house gas emissions from investments by 2050 at the latest contained in this report and the next steps including:

   - MJ Hudson providing a briefing for members, that includes their advice on the Fund's current position in terms of approaches to carbon reduction and specific ESG issues in the portfolio.

   - The Director of Corporate Operations writing to Dodge & Cox (copying to the other ACCESS investors) to encouraging them that strategic commitment to tackling climate change is required Further reductions in the Scope 1 and 2 carbon intensity of the Pension Fund's equity investment and the first assessment of Scope 3 emissions.

   - That the Pension Fund engages with its investment managers to ask for their assessment of the forecast carbon emissions of their portfolios by 2030, based on the current investment process, and what (if any) further changes could reduce forecast emissions further.

Executive Summary

3. The Pension Fund first commissioned RI advice from MJ Hudson in 2020, to assess the effectiveness of the Fund's investment managers in managing environmental, social and governance (ESG) issues and specific ESG issues in each of the investment managers' portfolios. In agreeing revisions to the RI policy for consultation in March 2022, which included the aim for net-zero green-house gas emissions (Scope 1, 2 and 3 emissions) from investments by 2050 at the latest, the Panel and Board also agreed to re-engage MJ Hudson to update their analysis of specific ESG issues in each of the investment managers' portfolios and provide advice on how the 2050 target is implemented with regard to an interim 2030 target.

4. MJ Hudson have completed the first half of their brief. They have conducted an independent assessment of the Fund's listed equities carbon footprint, including for the first time the Scope 3 emissions. MJ Hudson held a workshop with the Fund's officers to share their analysis and high-level comparison of the Fund's own approach to carbon reduction with a sample of peers, and the approaches of its investment managers.

5. MJ Hudson will move onto the second part of their brief to update their analysis of specific ESG issues in each of the investment managers' portfolios. This will supplement the Pension Fund's stewardship activities and monitoring of its investment managers, building on advice from MJ Hudson on how the Funds further formalises its approach in this area.

6. As part of their Panel and Board's 2022/23 Training Plan, MJ Hudson will provide a briefing for members on 28 November 2022, that includes their advice on the Fund's current position in terms of approaches to carbon reduction and specific ESG issues in the portfolio.

Overall assessment

7. As an initial assessment, MJ Hudson have considered Hampshire's high-level approach to managing the risk of climate change in comparison to some LGPS and non-LGSP pension funds (including two ACCESS members Cambridgeshire and Hertfordshire).

	nest	RAILPEN	Cambridgeshire County Council	Hertfordshire	SOUTH YORKSHIRE PENSIONS AUTHORITY	HAMPSHIRE PENSION FUND
			Local Government Pension Schemes (LGPS)			
Net Zero Target 2050	✓	✓	✓	✓	✓	✓
Interim 2030 target	30% absolute carbon emission reduction in public equities and fixed income by 2025	Railpen aims for a 50% reduction in greenhouse gas emissions by 2030	23% emissions decrease by 2024, 57% by 2030 (2021 baseline)	✗	Net Zero 2030 target	✗
Active Manager engagement	✓	✓	✓	✗	✓	✓
Climate considerations in voting policy	✓	✓	Environmental considerations in the ACCESS voting policy	Environmental considerations in the ACCESS voting policy	The Border to Coast consider net zero in line with TPI	Environmental considerations in the ACCESS voting policy
Low carbon index/ benchmark for passive investments	✓[1]	✓[1]	✗	✓[1]	✗	✓[1]
UK Stewardship Code 2020	✓	✓	✗[3]	✗	✓[2]	✓
View on Climate	"At Nest we accept the scientific evidence that climate change presents one of the biggest financial, environmental and societal challenges of our time."	"The climate crisis is a huge challenge for humanity, and we must all work together on it – we actively lead and collaborate to drive meaningful change where we can have the most impact."	"[Our RI policy] shows our support for the Paris Agreement, for a 'just transition' (one that is fair to individuals and communities)"	"Climate change is a systemic risk that will impact investments at the asset class, sector and company level and will require increasing consideration."	"SYPA has recognised for some time that Climate change represents the biggest long-term risk to the value of its investments"	"[HCC] supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns."

[1] Investing into climate aware index funds, there is room for more ambitious benchmarking for passive investments. [2] The Border to Coast pensions partnership is a signatory to the UK Stewardship code
[3] Cambridgeshire County Council supports the principles of the UK Stewardship Code and is looking to assess the impact of the 'apply and explain' Principles of the revised 2020 UK Stewardship Code.

8. This shows Hampshire compares positively with a variety of other Pension Fund's that have taken a strong approach to managing climate change, in setting a 2050 net zero target. Hampshire's obvious gap is a lack of a 2030 interim target, which is being addressed through MJ Hudson's advice.

9. MJ Hudson have also made a high-level assessment of Hampshire's equity investment managers and their approach and commitment to managing climate change, which is shown in the following table.

	Acadian ACADIAN	Baillie Gifford BAILLIE GIFFORD	Dodge & Cox Dodge & Cox®	UBS UBS
Stated commitments	Committing to net zero emissions by 2050 via Net Zero Asset Manager's Initiative (NZAMI)	Committing to net zero emissions by 2050 via NZAMI	The manager does not appear to have climate commitments in place	Committing to net zero emissions by 2050 across scope 1,2 and 3
Alignment with initiatives	• Signatory to the NZAMI • ClimateAction100 • PRI signatory	• Signatory to the NZAMI • ClimateAction100 • PRI Signatory	• PRI Signatory	• Signatory to the NZAMI • ClimateAction100 • PRI Signatory
Portfolio carbon reduction	Carbon emissions limited to 50% of the MSCI World benchmark	Global Alpha Paris Aligned – implementation of a screening process to ensure alignment with the Paris Climate Agreement	The manager does not have a stated carbon reduction objectives	Climate Aware and Low Carbon Factor Mix portfolios both with lower carbon emissions than the equivalent standard passive indices
Additional content	Focus on 3 conviction topics in the investment process: Energy Transition, Employee Well-Being, and Management Long-Termism.	Commit to increasing number of companies with carbon reduction targets, expecting 90% to have robust targets by 2030.	If we believe an ESG factor could impact our investment thesis, we'll consider its risks and opportunities.	Operational emissions net zero by 2025. Reduce emissions intensity from select real estate and energy financing activities

10. Since to MJ Hudson's initial analysis Dodge & Cox have joined Baillie Gifford and UBS in signing the UK Stewardship Code, and have shared with officers their updated tools for measuring companies' alignment to limiting global temperature rises and for prioritising company engagement. However as highlighted in the table above Dodge & Cox are yet to make any strategic commitment to managing climate change, which would be supportive of implementing a carbon reduction process for the portfolio.

11. As a follow-up action, this will be escalated by the Director of Corporate Operations writing to Dodge & Cox (copying to the other ACCESS investors) recognising the progress they have made in the last 6 months in their responsible investment activities and encouraging them that strategic commitment to tackling climate change is required. The letter should stress that if Hampshire does not see this strategic alignment similar to its other investment managers followed by a process for reducing the portfolio's carbon emissions by set deadlines, Hampshire will be forced to consider if it can achieve similar investment performance with better management of carbon emissions from another investment manager.

Carbon footprint

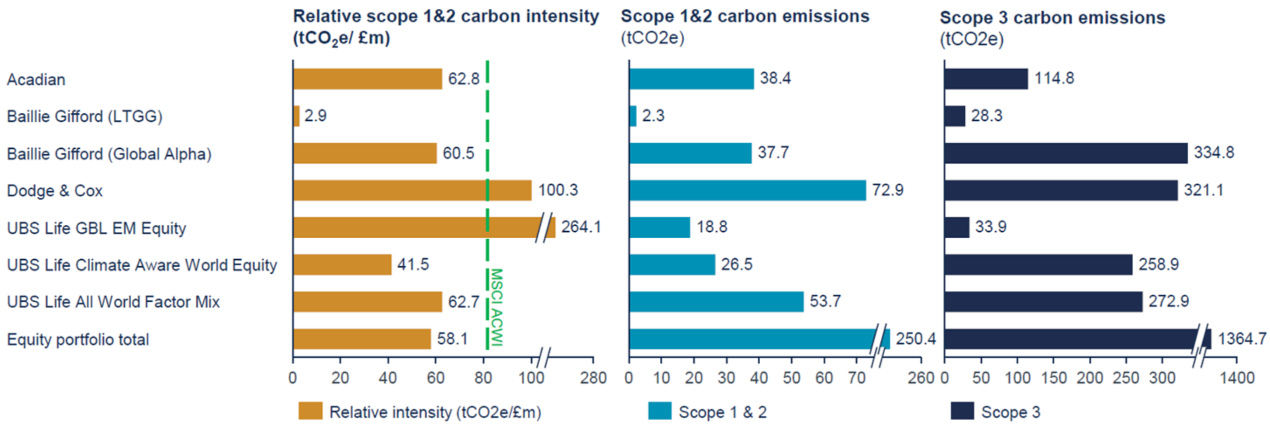
12. MJ Hudson have used the latest 2021 values from the Sustainalytics database for Scope 1, 2 and 3 emissions for the Pension Fund's active and passive listed equity holdings (46% of the Pension Fund's total investments, which reflects the difficulty of obtaining this data for asset classes other than listed equities). For companies that were not included in Sustainalytics data, MJ Hudson estimated figures based on the company's industry and geography and average carbon footprint intensity. Scope 1, 2 and 3 emissions are defined as:

    - Scope 1 - direct emissions from owned or controlled sources

    - Scope 2 – indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company

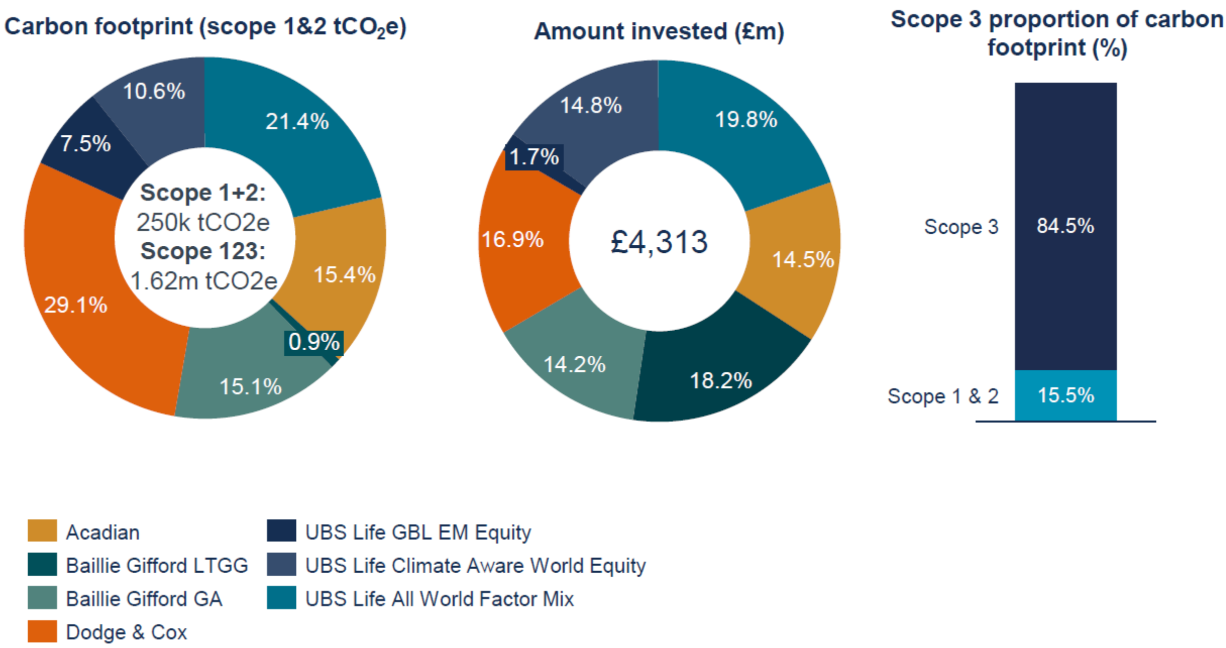
    - Scope 3 - includes all other indirect emissions that occur in a company's value chain, such as purchased goods and services, business travel, employee commuting, waste disposal, use of sold products and transportation and distribution (up and downstream)

13. The following charts show the carbon emissions from each of the Fund's equity portfolios and in total.



14. The Pension Fund has previously reported the carbon data reported by its investment managers at 31 December in 2019, 2020 and 2021. This is the first time that the Fund has had independently produced carbon data and Scope 3 data. MJ Hudson's data is in line with the data that the Pension Fund has previously published. It shows a further reduction in the carbon intensity of equity investments – down from 109 tCO2e/£m at 31 December 2021 to 58 tCO2e/£m. MJ Hudson have cautioned that the combined effect of the economic contraction resulting from Covid-19 combined with increasing asset value in 2021 will have had a downward movement in carbon intensity figures that may be reversed in the following reporting periods.

15. The following charts show the Fund's equity portfolio's carbon emissions in proportion to the size of each portfolio.



16. These figures and those in the previous charts highlight the following relationships, which will serve as the Pension Fund priorities in its next phase of RI activities:

- The disproportionate emissions from the Dodge & Cox, and UBS passive Emerging Markets portfolios, which remain those that the Fund has to implement carbon reduction approaches for.

- The lack of correlation between portfolios with relatively low Scope 1 and 2 emissions and their Scope 3 emissions, such as the Baillie Gifford Global Alpha portfolio, which is significant given Scope 3 emissions make up the vast majority of total emissions. This will be addressed with investment managers through the ongoing engagement and monitoring by Pension Fund officers and the Panel and Board.

Approaches to an interim 2030 carbon reduction target

17. MJ Hudson have provided advice on approaches to carbon reduction and the setting of an interim target. Their key points are:

    - That the Pension Fund engages with its investment managers to ask for their assessment of the forecast carbon emissions of their portfolios by 2030, based on current investment process, and what (if any) further changes could reduce forecast emissions further.

    - That the investment managers are asked for their assessment of their portfolio's exposure to climate risk – this is a repeat of the Task Force on Climate-Related Financial Disclosures (TCFD) scenario analysis that the Pension Fund undertook in 2021 and plans to update and repeat in 2023.

    - That the Pension Fund considers further changes to its equity portfolios, in particular its use of passive indices, that build in a commitment to year-on-year carbon reduction, or 'glide-path', as the Pension Fund has already done with the move to Baillie Gifford Global Alpha *Paris Aligned* portfolio.

    - That further work is done with the Fund's investment managers to improve the monitoring of company engagement in particular the setting and monitoring of targets/actions for company management, and discussing when disinvestment would be appropriate if these are not met.

    - Further advice from MJ Hudson on industry examples of realistic and stretching interim 2030 carbon reduction targets.

Climate Change Impact Assessments

18. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

19. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy Responsible Investment | Hampshire County Council (hants.gov.uk). The implementation of this policy is the subject of this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a report because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

   The County Council has a duty under Section 149 of the Equality Act 2010 (‘the Act’) to have due regard in the exercise of its functions to the need to:

   - Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
   - Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
   - Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

   Due regard in this context involves having due regard in particular to:

   - The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
   - Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
   - Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

   Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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