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Hampshire County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 25th March, 2022 at 10.00 am
Place	Ashburton Hall, EII Court, Winchester
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 FOR ABSENCE

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. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 12)

To confirm the Minutes of the meeting held on 10 December 2021.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. RESPONSIBLE INVESTMENT SUB-COMMITTEE MINUTES - 4 MARCH 2022 (Pages 13 - 18)

To receive the minutes of the Responsible Investment Sub-Committee held on 4 March 2022.

7. ACCESS JOINT COMMITTEE MINUTES 6 DECEMBER 2021 (Pages 19 - 24)

To receive the minutes of the ACCESS Joint Committee held on 6 December 2021.

8. GOVERNANCE: ACCESS BUSINESS PLAN (Pages 25 - 38)

To consider a report from the Director of Corporate Operations seeking the approval of the Panel and Board for the 2022/23 ACCESS Business Plan.

9. GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS (Pages 39 - 44)

To consider a report from the Director of Corporate Operations reviewing the meeting requirements of the Panel and Board following the first year of changing the calendar of meetings.

10. INVESTMENTS: UPDATE TO THE RESPONSIBLE INVESTMENT POLICY (Pages 45 - 86)

To consider a report from the Director of Corporate Operations seeking approval for proposed amendments to the Pension Fund’s Responsible Investment Policy for consultation with scheme members and employers, as recommended by the Responsible Investment Sub-Committee.

11. EXCLUSION OF THE 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.

12. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 87 - 90)

To confirm the exempt minutes of the meeting held on 10 December 2021.

13. RESPONSIBLE INVESTMENT SUB-COMMITTEE - 4 MARCH 2022 - EXEMPT MINUTES (Pages 91 - 92)

To receive the exempt minutes of the Responsible Investment Sub-Committee held on 4 March 2022.

14. ACCESS JOINT COMMITTEE - 6 DECEMBER 2021 - EXEMPT MINUTES (Pages 93 - 96)

To receive the exempt minutes of the ACCESS Joint Committee held on 6 December 2021.

15. INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT (Pages 97 - 106)

To consider a report from the Director of Corporate Operations providing a review of custody services since the last report in February 2021 and an update on the Pension Fund’s tax claims and class actions.

16. INVESTMENT - INVESTMENT UPDATE (Pages 107 - 122)

To receive the exempt report of the Director of Corporate Operations updating the Panel and Board on the Pension Fund’s investments since the last meeting of the Pension Fund Panel and Board on 10 December 2021.

17. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE (Pages 123 - 140)

To receive the exempt report of the Director of Corporate Operations updating the Pension Fund Panel and Board on the progress of the alternative investments portfolio.

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.

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 10 December 2021.

Chairman:
*Councillor M. Kemp-Gee

Vice-Chairman:
* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):
* A. Crawford
* J. Glen
A. Joy
* R. Mocatta
* D. Drew
A. Dowden
* D. Hiscock
* D. Mellor
* T. Davies (as an observer)

Employer Representatives (Co-opted members):
Councillor R. Harwood (Southampton City Council)
Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Dr L Bartle (University of Portsmouth)
Councillor C. Corkery (Portsmouth City Council)

Scheme Member Representatives (Co-opted members):
* Dr C. Allen (pensioners' representative)
* Mr N. Wood (scheme members representative)
* Ms L. Gowland (deferred members' representative)
Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:
* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

35. **APOLOGIES FOR ABSENCE**

Cllrs Dowden, Corkery, Harwood Joy and Mrs Manchester sent their apologies.

36. **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.

37. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 28 September 2021 were confirmed.

38. **DEPUTATIONS**

The Panel and Board received a deputation from Mr Tony Langridge a deferred member, speaking on agenda item 9, the Pension Fund's Business Plan, representing the Dirty Money Campaign.

Mr Langridge stressed that we are all living in a climate emergency and individuals often feel powerless, however the Pension Fund has power that individuals lack, and therefore it would be wonderful if it showed leadership in this area rather than appearing to be reluctant to seriously consider divestment. The Dirty Money Campaign would like the Fund's investments to help meet, not undermine, the world's goal to limit global heating to 1.5 degrees Celsius.

Mr Langridge highlighted that it had been reported that the Pension Fund has an estimated £136m directly invested in the fossil fuels industry. He described these investments as dirty money and asserted that these could soon become stranded assets. He highlighted examples of sustainable investments that had achieved strong recent returns.

Mr Langridge stated that the Pension Fund's Business Plan reflects a lack of urgency in this whole area, and despite this, the last Annual Report identified climate change as 'a systemic risk and thus a material long term financial risk' but he couldn't see in the Business Plan any direction to urgently address this risk. He suggested that the Fund's investment managers should not be just required to consider Environmental, Social and Governmental factors but directed to reduce all investment in companies with carbon intensive operations.

Mr Langridge highlighted the good practice of a number of investors having formally adopted the 1.5 degrees C alignment as a core commitment and are the members of the Net-Zero Asset Owner Alliance; these investors were hailed at COP26 as a gold standard of what financial institutions of all sizes should be doing. Mr Langridge stated that it would be good to see an ambition from Hampshire to be the best in this area, such as joining the Institutional Investor Group on Climate Change's Net Zero Investment Framework. This group has 360 members including a number of local authority pension funds including West Midlands, West Yorkshire, Tayside, Lothian, Islington, Newham and more locally Wiltshire.

Mr Langridge noted the potential risks of Climate Change, for example large areas of Hampshire are at risk of rising sea levels and coastal flooding by 2030. Mark Carney has said investors should stay with polluting companies and support them to transition, however Mr Langridge believes this is a dangerous approach as it ignores that for most companies profit maximisation comes before the future of the planet, and so the Pension Fund needs to look for commitment from those companies it invests the members money in; the Fund needs companies and investment funds that demonstrably commit to guarding the 1.5 degree C goal.

Mr Langridge concluded by pointing to the Glasgow Climate Pact which showed the goal of a 1.5 degrees C limit written clearly for all to see and asked if the Pension Fund would;

- acknowledge it,
- act on it without further delay, and
- take a leading rather than passive approach.

Cllr Kemp-Gee thanked Mr Langridge for his deputation.

39. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman thanked the Members who attended the ACCESS virtual investor day, which he commended as a very useful event for Members and invited Members to report back on any other training events they had attended:

- Dr Bartle, Cllrs Taylor and Hiscock – all reported that they had attended the LGPS Fundamentals course and that they felt it was beneficial.
- Ms Gowland recommended the Public and Private Pensions Summit as one of the best events she had attended.

39. **ACCESS MINUTES – 6 SEPTEMBER 2021**

The minutes of the ACCESS Joint Committee meeting held on 6 September 2021 were received.

40. **GOVERNANCE – INTERNAL AUDIT PROGRESS REPORT**

The Panel and Board noted a report of the Director of Corporate Operations (item 7 in the Minute Book) updating the Pension Fund Panel and Board on the progress of the Internal Auditors' work programme for 2021/22. An audit has been completed on the administration of new members of the Pension Fund, showing substantial assurance in the controls in place. Further work is in progress for reviewing members leaving the Pension Fund, pensions payroll and benefit calculations, UPM (the pension administration software) and the Fund's governance.

41. **GOVERNANCE – ADMINISTRATION PERFORMANCE UPDATE**

The Panel and Board noted a report of the Director of Corporate Operations (item 8 in the Minute Book) updating the Pension Fund Panel and Board on administration performance in the first six months of 2021/22 and other administrative issues.

Administration performance against key service standards is measured each month and in the first six months of 2021/22 Pension Services have delivered a 100% success rate against all standards and administration work has continued to be unaffected by the Covid-19 pandemic.

Employer year end returns are submitted to Pension Services and the data is then used to update pension records and produce annual benefit statements. Employers are measured for timeliness, financial control and data quality and any who are highlighted as a concern or who receive a red rating for data quality are required to complete a data validation exercise. Overall there has been a continued improvement in Employer performance for the Annual Returns process.

The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Pension Services have demonstrated an improvement in both the common and conditional data scores which are reported annually to The Pension Regulator.

The McCloud remedy project work has continued in 2021/22. Data is required from all of the Pension Fund's 337 employers, of which 24 remain outstanding and excellent progress has been made in contacting all outstanding employers with the result being that all employers are now engaged and are aware of what they need to provide. The actual McCloud remedy and the accompanying legislation has yet to be confirmed. It is anticipated that significant further work will be required once the remedy and accompanying legislation are in place.

42. **GOVERNANCE: PENSION FUND BUSINESS PLAN**

The Panel and Board received a report of the Director of Corporate Operations (item 9 in the Minute Book) presenting the proposed business plan and budget for 2022/23 to 2024/25. Following a review of the Pension Fund's approach to reporting its Business Plan, the report has been expanded to include a number of other reports, such as the training plan and risk register, to produce a more consolidated document that links the Pension Fund's activities to its budget. The

Business Plan has also been expanded to importantly reflect that the majority of the Fund's activity is its business-as-usual, as well the more one- off, project-based activities that are captured in the traditional business plan.

The budget for 2022/23 to 2024/25 has been prepared to reflect the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board.

RESOLVED:

a) That the business plan and budget for 2022/23 to 2024/25 are approved.

43. **GOVERNANCE: GOOD GOVERNANCE REVIEW UPDATE**

The Pension Fund Panel and Board received a report of the Director of Corporate Operations (item 10 in the Minute Book) providing an update on progress against the recommendations of the Scheme Advisory Board's (SAB) Good Governance Review including the Fund's documents for review that fulfil the requirements of the Good Governance review.

Since 2019, there have been three phases of the review, leading to the production of a series of recommendations. Phase 3 of the reporting was agreed in February 2021 and built on the recommendations agreed in 2019 with further input from a range of scheme stakeholders and an action plan for the SAB and MHCLG (as was). The recommendations to date have not yet been translated into statutory guidance by Government, however the Pension Fund has taken the opportunity to continue to review its current governance arrangements in line with the outcome of the Good Governance review.

The Good Governance Review has introduced the concept of a Senior Responsible Officer for each LGPS fund. The Senior Responsible Officer is responsible for the delivery of the LGPS function in its entirety, and be close enough to the running of the fund to have sight of all aspects of its business and be able to identify the necessary resources to deliver the business to the required standard. Following the changes to the Council's senior management structure, the Deputy Chief Finance Officer to the Pension Fund will be the Senior Responsible Officer for the Pension Fund. This role does not change the responsibilities of the CFO of the Pension Fund, which remains with the Director of Corporate Operations.

The Pension Fund's framework of governance documents now includes a Conflicts Policy following the best practice recommendations of the

Good Governance Review. The proposed draft policy will require Pension Fund Panel and Board members and officers to complete a declaration of interest form each year.

Under the existing Funding Strategy Statement (FSS) and Employer Policy, 24 closed employers are on the Ongoing Orphan Funding Target (OOFT). These employers will leave orphan liabilities in the Fund when their last active member leaves as there is no ongoing employer to pay for those liabilities in the future. The Funding Strategy Statement, Investment Strategy Statement and Employer Policy have all been amended to reflect the review of the Fund's Actuary, Aon, who have reviewed funding target for employers on the OOFT.

RESOLVED:

a) The Pension Fund Panel and Board noted the Fund's progress against the SAB's Good Governance review in the Shadow Governance Compliance Statement and approved the following documents that form the Fund's Governance Framework:
   - Conflicts of Interest Policy
   - Funding Strategy Statement
   - Employer Policy
   - Administration Strategy Statement – including Decision Matrix
   - Business Plan, including the Fund's Budget, Risk Register and Training Plan (included in item 9)
   - Investment Strategy Statement
   - Representation Policy
   - Communication Policy Statement
   - Governance Policy and Compliance Statement

44. **INVESTMENT: PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2022/23**

The Panel and Board considered a report of the Director of Corporate Operations (Item 11 in the Minute Book) on the Pension Fund's cash balances and the Annual Cash Investment Strategy for those balances in 2022/23. The Annual Cash Investment Strategy has been prepared taking advice from the County Council's treasury management advisors Arlingclose into account.

As agreed by the Pension Fund Panel and Board on 12 February 2021, the Director of Corporate Operations reviews the Pension Fund's asset allocation to Protection assets on a quarterly basis, which is made up of Index-linked Gilts and cash. If the value of Index-linked Gilts is outside of the long-term strategic allocation of 22% by 5% (i.e. above 27% or below 17% of the total value of the Fund), the Pension Fund rebalances by adding to maintain the asset allocation to Protection assets. Since this change to the approach was agreed the actual allocation to Index Linked Gilts has remained above 17% of the Fund.

Officers recently approached Hymans Robertson for updated advice regarding this policy. As the Fund is approaching another actuarial valuation in 2022, there will be an opportunity at that time to review funding and investment plans. Hymans are of the opinion that taking potential actions now could potentially reduce the expected level of returns on the Fund's assets ahead of the valuation and any strategic review. Therefore, Hymans have recommended to suspend the rebalancing on index-linked gilts until the 2022 Actuarial Valuation has been completed or there is a marked improvement in long term inflation pricing.

RESOLVED:

(a) The Annual Cash Investment Strategy for 2022/23 was approved.
(b) The Annual Cash Investment Strategy for 2022/23 will be implemented from the date of this meeting for the remainder of 2021/22.
(c) The Director of Corporate Operations is authorised to manage the Fund's cash balance in accordance with the policy set out in the report.
(d) That the current policy on rebalancing Index-linked gilts be suspended.

45. **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 Paragraph 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.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

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

The exempt minutes of the Pension Fund Panel and Board held on 28 September 2021 were confirmed.

47. **GOVERNANCE – CYBER SECURITY AND BUSINESS CONTINUITY**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 14 in the Minute Book) on the controls in place to ensure the security of the pension data held by the Hampshire

Pension Fund. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

48. **INVESTMENT: INVESTMENT UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 15 in the Minute Book) on the progress on the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually 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

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.

29. **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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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Bevin Hall - 18 Smith Square, LGA Offices, London on Monday, 6th December, 2021.

PRESENT: Cllr Mark Kemp-Gee (Hampshire), Cllr Susan Barker (Essex), Cllr Charlie Simkins (Kent), Cllr Debbie Andre (Isle of Wight), Cllr Jeremy Hunt (West Sussex), Cllr Judy Oliver (Norfolk), Cllr Andrew Williams (Hertfordshire), Cllr Charles Morton (West Northants)

ALSO PRESENT: Kevin McDonald (ASU), Mark Paget (ASU), Paul Tysoe (ASU), Dawn Butler (ASU) Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson) and David Crum (Minerva).

OFFICERS: Alison Mings (Kent), Andrew Boutflower (Hampshire), Glenn Cossey (Norfolk), Jo Thistlewood (IoW), Jody Evans (Essex), Mark Whitby (West Northants), Patrick Towey (Hertfordshire), Rachel Wood (West Sussex), Sharon Tan (Suffolk), Sian Kunert (East Sussex), Katherine Eberhart (West Sussex), Alexander Younger (Norfolk), Kay Goldsmith (Kent) and Joel Cook (Clerk)

UNRESTRICTED ITEMS

18. Apologies/Substitutes.
(Item. 1)

1. Apologies were received from Cllr Jarman (Cllr Andre substituting), Cllr Whelan, Cllr Soons (joined virtually as a guest), Cllr Fox (joined virtually as a guest) and Cllr Longley (Cllr Morton substituting).

RESOLVED apologies be noted.

19. Declaration of interests in items on the agenda.
(Item. 2)

None.

20. Minutes of the meeting held on 6 September 2021.
(Item. 3)

RESOLVED that the minutes from the meeting held on 6 September 2021 be signed as a true and accurate record.

21. Chair's remarks.
(Item. 4)

1. The Chair noted that Kemi Badenoch MP was the new Minister for the Department for Levelling Up, Housing and Communities.

2. He highlighted the importance of Members sending substitutes to meetings when they were unable to attend.

RESOLVED that the Chair's remarks be noted.

22. Business plan, budget and risk summary.
(Item. 5)

1. Mr McDonald provided an update to the Committee. He commented that a number of workstreams included in the Business Plan would be discussed in more detail in later agenda items.

2. The Committee asked if the figures on expenditure and savings (para 1.3 in agenda) could be compared with other Pools. Mr McDonald offered to follow-up on a dialogue with other pools that he had already started.

3. Mr McDonald expressed that the timing of consultations in relation to climate related disclosures and LGPS Pooling remained unclear but would likely be in the new year.

4. In response to a question about the additional budget allocated to "external professional costs", Mr McDonald agreed to provide a breakdown of the figures sitting under that budget line. He confirmed that any third-party review of the ACCESS Support Unit (ASU) would be brought to the Joint Committee before it commenced.

RESOLVED that
1. The 2020/21 outturn, Business Plan update, the 2021/22 budget update, and summary risk register be noted.

2. The 2022/23 business plan be recommended to the ACCESS Authorities; and the recommendation of the s151 Officers from ACCESS Authorities to determine the 2022/23 budget totalling £1.366m to support the proposed business plan be accepted.

23. Communications update.
(Item. 6)

1. Mr McDonald provided an update, explaining that the partnership with Engine MHP was almost one year into a two-year contract. They would attend the March 2022 meeting with a review of the first year.

2. Following the appointment of ACCESS spokespeople at the last meeting, media training had been completed. Mr McDonald confirmed that the ACCESS website had been updated in line with Engine's recommendations, but that further work was due to take place.

3. Mr McDonald explained that Engine MHP had been kept apprised of developments around the draft Responsible Investment (RI) guidelines so that they could prepare statements and communications ready for when the guidance was approved. He confirmed that the intention was for individual authorities to agree the RI policy before any communications were finalised.

RESOLVED that the report be noted.

24. Motion to Exclude the Press and Public.
(Item. 7)

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

25. Draft RI Guidelines and governance next steps.
(Item. 8)

1. Mark Whitby (Northamptonshire) provided an update on the ACCESS Responsible Investment guidelines.

2. The proposed guidelines were scheduled to be on the 7 March 2022 agenda. However, Members commented that in view of the significance of this work it was important for all Administering Authorities to have time to give them further consideration before any decisions were made by the Joint Committee. It was agreed that inter-authority communication would be delegated to the Officer Working Group (OWG) and a final document would come to the June 2022 meeting. A workshop or webinar would also be held between March – June 2022 allowing for further discussion on the draft.

3. A Member sought clarification over the status of the guidance, and it was confirmed that the document was not statutory but an internal document that would be agreed by individual ACCESS Authorities. It was intended to provide an overarching set of common principles for ACCESS authorities.

RESOLVED that the update on the ACCESS RI Guidelines project be noted.

26. Implementation Adviser procurement.
(Item. 9)

1. Mr Paget updated the Committee on the procurement of an Implementation Advisor.

RESOLVED that the report be noted.

27. Performance Report.
(Item. 10)

1. Sharon Tan (Suffolk) provided an overview of current ACCESS performance, including reference to the Investment Performance Report, which showed that pooled assets of all ACCESS Authorities amounted to £32.915bn at the

end of September 2021 (up from £31.602bn in June 2021). Pool aligned assets represented 55% of total assets.

RESOLVED that the report be noted.

28. Response to EM review: Protocol for new sub-funds.
(Item. 11)

1. Mr McDonald provided an update on the responses to the recommendations of the Emerging Markets review, particularly in relation to the creation of a protocol for the establishment of future sub-funds and how this was to be adopted as guiding principles rather than set criteria.

2. It was noted that the guiding principles now proposed, had been developed through detailed work at the Officer Working Group, and had been discussed in depth by s151 Officers prior to their recommendation to the Joint Committee.

RESOLVED that
1. the sub-fund criteria proposed by the Officer Working Group (OWG) in August 2021 (paragraphs 3.6 - 3.9) be adopted, not as criteria, but as guiding principles; in recognition of the concepts of both self-regulation and peer review.

2. The revised protocol flowchart be adopted.

3. The impact of the guiding principles and the protocol on ACCESS sub-funds be monitored by the OWG and the ASU, kept under review at future s151 meetings and subject to formal review by s151 Officers at a meeting in November 2022.

29. Sub-fund implementation.
(Item. 12)

1. Mr Tysoe provided an update on the progress with sub-funds. Three Multi-Asset Credit sub-funds were included in tranche 5b, and the ASU was working closely with Link to prepare for this. Mr Tysoe was invited to provide an update on those conversations at the next meeting.

2. Members discussed and acknowledged some areas where issues had negatively impacted individual Authorities. It was highlighted that areas of key learning for the future were being finalised.

RESOLVED that
1) the report be noted.

2) the creation of two emerging market equity sub-funds, reflecting growth and value investment styles, be approved.

30. Contract Management.
(Item. 13)

1. Mr Paget provided the regular update on Contract and Supplier Relationship Management activity, with key work and future areas of focus highlighted to the Committee.

RESOLVED that the report be noted.

31. Risk Management.
(Item. 14)

1. Mr Paget updated the Committee on the current risk profile of the Pool. He agreed to provide a more detailed commentary on the elevated risks in future reports.

RESOLVED that the risk register update be noted.

32. BAU evaluation next steps.
(Item. 15)

1. John Wright (Hymans Robertson) provided an update from the Business As Usual Evaluation.

2. Members discussed the recommendations and asked a range of questions for clarification. John Wright and Mr McDonald provided answers and information to support the consideration of the recommendations regarding future operating arrangements for the ACCESS Pool as part of Business As Usual.

RESOLVED that the proposed timetable be noted.

33. Date of next meeting - Monday 7 March 2022
(Item. 16)

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	25 March 2022
Title:	Governance: ACCESS business plan
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. To present the 2022/23 ACCESS business plan for approval by the Panel and Board.

Recommendations

2. That the Panel and Board approves the ACCESS business plan for 2022/23 and the share of costs that the Hampshire Pension Fund will pay.

Executive Summary

3. The Pension Fund Panel and Board has received a number of reports on the progress of forming the ACCESS pool and in addition receives the minutes of the ACCESS Joint Committee meetings.

4. Hampshire is a member of the ACCESS pool alongside the following ten other LGPS funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

5. According to the terms of the ACCESS Inter-Authority Agreement (IAA) the ACCESS Joint Committee is required to agree a business plan for the forthcoming year which it recommends to the individual ACCESS authorities for their agreement.

6. The 2022/23 business plan was agreed by the ACCESS Joint Committee for recommendation to the member authorities at its meeting on 6 December 2021 and is contained in Annex 1. The business plan sets out ACCESS's workplan of activities for the current year and the estimated budget to complete the work which is a total of £1.37m, of which Hampshire's one eleventh share would be £124,000.

2021/22 activities

7. ACCESS has continued its work to transfer assets to the pooled Authorised Contractual Scheme (ACS) managed by Link, and has provided the necessary governance and other support for pooled investments. The key activities completed in 2021/22 were:

   - Increasing the size of the ACS to £23bn (including sub-funds for all of Hampshire's active equity investments).
   - Ongoing monitoring of the contract with Link Fund Solutions as the Operator of ACCESS's ACS.
   - Appointing an implementation advisor (MJ Hudson) to take forward the pooling of illiquid investments.
   - Reviewing a draft Responsible Investment policy, produced with the assistance of ACCESS's appointed advisor, Minerva.
   - Working with the pool's appointed consultant (MHP Engine) to review the approach to communications.

8. Actual costs in 2021/22 are estimated at £1.06m (£97,000 per authority), £0.18m lower than the approved budget.

2022/23 business plan

9. The main activities for ACCESS in 2022/23 will be:

   - Actively managed listed assets: further pooling of active listed assets within the ACS.
   - Alternative / illiquid assets: the first full year's activity on the implementation of pooled alternative assets.
   - Passive assets: ongoing monitoring and engagement with UBS.
   - Governance: the continued application of appropriate forms of governance throughout ACCESS.
   - ACCESS Support Unit (ASU): an external review of the ASU.

Climate Change Impact Assessments

10. 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.

11. 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. For investments made through the ACCESS pool, these activities will take place as part of the pool and be governed by ACCESS's Responsible Investment policy, which is part of ACCESS's business plan to develop further.

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.

Annex B

ACCESS
Effective • Collective • Investment

2022/23

Business Plan

& Budget

Introduction

ACCESS has its origins in 2016 when eleven Local Government Pension Scheme (LGPS) Authorities agreed to begin working collectively to address the requirements of the Government's agenda for pooling LGPS investments.

The following strategic objectives are in place:

- enable the Councils to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible;
- provide a range of asset types necessary to enable those participating Authorities to execute their locally-determined investment strategies as far as possible;
- enable the Councils to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

In order to achieve these objectives, the Councils have established a set of governing principles.

The governing principles are summarised below.

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Implicit within the above principles is the democratic accountability and fiduciary duty of the Councils as Administering Authorities.

The Joint Committee recommends an annual strategic business plan to the Councils, following recommendations from Section 151 Officers and following input from the ACCESS Support Unit (ASU).

Context

During 2021/22 further progress continued in pooling active listed assets, and the foundation of the pool's approach to illiquid assets was put in place. In partnership with Minerva, the pool's Responsible Investment Adviser, work was undertaken on updating Environmental, Social and Governance / Responsible Investment guidelines.

Alongside appointed partner Engine MHP, work was undertaken to develop ACCESS's approach to communications.

It is anticipated that 2022/23 will see key activities within the following themes:

Actively managed listed assets: *further pooling active listed assets within the Authorised Contractual Scheme (ACS).*

Alternative / non-listed assets: *the first full year's activity on the implementation of pooled alternative assets.*

Passive assets: *ongoing monitoring and engagement with UBS.*

Governance*: the continued application of appropriate forms of governance throughout ACCESS.*

ACCESS Support Unit (ASU): *an external review of the ASU.*

Business Plan

The Business Plan is proposed each year to the Councils by the Joint Committee on the basis of recommendations from the s151 Officer Group. The Joint Committee, on advice from the s151 Officer Group, determine a budget in order to deliver the annual Business Plan. Workstreams for the ASU are monitored at the Officer Working Group (OWG) and in turn reported to the s151 Officer Group where key ACCESS business plan activity and deliverables for the fiscal year are considered.

Each theme within the business plan includes milestones planned for the year. The strategic nature of ACCESS's objectives means that a number of the 2022/23 milestones build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

The *Joint Committee* will receive updates on the milestones at each meeting.

Budget

A budget totalling **£1.366m** to support the business plan is included at the end of this paper.

Theme	Milestone	2022/23 activity
Actively managed listed assets	Launch of Tranche 5b Launch of Tranche 5c Determine, approval & launch of Tranche 6 Scheduled BAU evaluation	Anticipated 2022/23 Anticipated 2022/23 Anticipated 2022/23 Continued implementation outcomes of Scheduled BAU evaluation including the commencement of an IAA review in September 2022
Alternative / non-listed assets	Initial implementation of approach to pool illiquid assets *Following the appointment of the pool's Implementation Adviser in 2021/23*	The first pooled illiquid vehicles will be launched
Passively managed assets	Ongoing monitoring of assets managed on a passive basis	Further engagement and exploration with UBS will continue throughout the year
Governance	Meetings and oversight	Arrangements will be made to support meetings of the Joint Committee (usually each quarter) Meetings of s151 Officers will also be held

Theme	Milestone	2022/23 activity
		Where required training will be provided, this may involve third party providers
	Operational protocols	The implementation of the revised Governance Manual
	Engagement with HM Government I Department for Levelling UP, Communities & Housing (DLUCH)	ACCESS will liaise with the Scheme Advisory Board as appropriate Periodic reports will be provided to DLUCH as required The Pool will actively participate with any Cabinet Officer / DLUCH pooling-related consultations
	Joint Polices & guidelines	Continued activity will take place on implementing the Communications plan. A procurement will take place for Communications support The implementation of revised ESG / RI guidelines on ESG / RI. A procurement will be completed for RI reporting support
ACCESS Support Unit (ASU)	ACCESS Support Unit	A third-party review of the ASU will be undertaken

A separate risk register measures the risk of the strategic objectives and milestones not being achieved and the resultant impact.

Budget 2022/23

The budget for 2022/23 is detailed below.

	Budget 2021/2022 £	Joint Cttee 6 Dec '21 £	Budget 2022/2023 £
ASU			
ASU Salaries (incl. on cost)	460,261	419,494	465,000
ASU Operational	20,580	14,865	23,000
ASU Host Authority Recharge	64,087	30,000	35,000
Technical Lead Recharge Costs	40,000	38,752	45,000
ASU Total	**584,928**	**503,111**	**568,000**
Professional Costs			
Internal Professional Costs			
JC Secretariat	21,761	16,500	22,000
Procurement	45,000	27,000	60,000
Internal Professional Costs	**66,761**	**43,500**	82,000
External Professional Costs			
Strategic & Technical	433,000	348,167	546,000
Technical			
Legal & Governance	162,330	160,000	170,000
Project Management	-		-
External Professional Costs	**595,330**	**508,167**	716,000
Professional Costs Total	**662,091**	551,667	**798,000**
Total Costs per 2020/2021	**1,247,019**	1,054,778	**1,366,000**
Cost Per Authority	**113,365**	**95,889**	**124,182**

The key assumptions contained within the budget are outlined below:

Key budget assumptions

The first full year effect of the ASU comprising of five full time officers.

The continued level of Technical Lead support.

Joint Committee Secretariat services remaining with Kent County Council for the duration of 2021/22.

Expenditure for a Procurement Lead Authority to deliver the following:

- procurement support for the provision of pooled illiquid / non-listed assets;
- the procurement of communications support;
- the completion of procurement for reporting arrangements for Responsible Investment.

External professional costs cover a range of matters including:

- ongoing advice and project management support in relation to the Scheduled BAU evaluation;
- the required reporting associated with Responsible Investment guidance;
- pool communications and communications strategy;
- ongoing advice in support of operational pool activity.

External legal advice.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	25 March 2022
Title:	Pension Fund Panel and Board meetings
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. This report follows up on the Pension Fund Panel and Board's request to review their meeting requirements following the first year of changing the calendar of meetings

Recommendations

2. That the current schedule of four quarterly meetings of the Pension Fund Panel and Board and separate investment manager briefings remains in place.

3. That the investment manager briefings remain virtual but the option is available for face-to-face meetings by exception.

4. That the ACCESS Joint Committee arrangements to invite two observers from each of the Councils' Local Pension Boards at least once a year are noted, and that the Scheme Member and Employer representatives on the Panel and Board are asked to agree amongst themselves who will take the first invitation at being Hampshire's observers.

Executive Summary

5. Up to the end of 2020/21 the Pension Fund Panel and Board met seven times a year, with meetings generally scheduled for 3 hours. In most meetings the committee considered papers covering both the governance and investments of the Pension Fund, as well as hearing presentations from the Fund's investment managers, all of which created challenges. As a result, the Panel and Board agreed to change to four quarterly meetings in 2021/22, with

separate virtual investment manager briefings. The Panel and Board agreed they would review this new arrangement at the end of the first year.

2021/22 Panel and Board meetings

6. This is the fourth of the planned scheduled meetings for 2021/22. As planned the Panel and Board have received all the necessary governance and investment papers required for the management of the Pension Fund. There has been no reduction in the number of regular items reported to the Panel and Board with the move to quarterly meetings.

7. In addition, six virtual investment manager briefings have been held this year, allowing Members to hear from all of the Pension Fund's investment managers. These briefings have been well attended with 50-75% attendance, including the Panel and Board substitute members and its independent advisor, and the feedback from Members has been positive. Virtual meetings have reduced the travel requirements for both Members and the Fund's investment managers (a number of which are based overseas) and eased diary scheduling.

8. On the basis that the current arrangements of four quarterly Panel and Board meetings and separate investment manager briefings has been successful, it is recommended that this schedule is maintained. It is recommended that the investment manager briefings remain virtual but that now the option is available, face-to-face meetings are considered if required.

Scheme member interaction

9. At the time the decision was made to change the schedule of Panel and Board meetings a concern was raised that this would reduce the opportunities for interactions with scheme members. There has been a single deputation made to each of the first three meetings of this municipal year. Within the County Council's deputation rules there remains significant further capacity for more deputations, should there be demand, therefore the number of Panel and Board meetings is not a constraint.

10. Unrelated to the number of Panel and Board meetings, it has been reported that 20,000 scheme members (of a total of 183,000) are *'disenfranchised'* because they are not Hampshire residents and therefore cannot make a deputation to the Panel and Board. This is the application of Hampshire's Standing Orders, which apply to all committees of the County Council, including the Pension Fund Panel and Board (and Responsible Investment sub-committee), and can only be amended with Cabinet and County Council approval. Further investigation will take place on the required governance to amend the deputation rules specifically for the Pension Fund Panel and Board.

11. All scheme members are able to write to the committee and/or Pension Fund on any topic, and any correspondence related to responsible investment (RI) is reported to the RI sub-committee. Additionally, the Pension Fund is continuing to look for ways to continue to improve its communication with scheme members, including its third annual RI update for scheme members that will be published shortly.

Local Pension Board observation of ACCESS Joint Committee (JC) meetings

12. At its latest meeting on 7 March 2022 the ACCESS JC agreed to invite observers to Joint Committee meetings on a rotational basis, allowing two observers from each Local Pension Board to be in attendance in person at least once each a year. Observers from Local Pension Boards are intended to further assist ACCESS with the assurance of transparent reporting and to demonstrate the effective implementation of local investment strategies by the JC on behalf of the Councils. In order to establish the formal observation arrangements for Local Pension Boards of Joint Committee meetings, consideration will be given to any changes necessary to the Inter Authority Agreement (IAA).

13. The Panel and Board will be kept up to date on when the arrangements for Local Pension Board observers will begin and when representatives from Hampshire will be invited. In the meantime the Scheme Member and Employer representatives on the Panel and Board are asked to agree amongst themselves who will take the first invitation at being Hampshire's observers.

Climate Change Impact Assessments

14. 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.

15. 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 InvestmentStrategyStatementincludingRIpolicy.pdf (hants.gov.uk).

16. This paper relates to the Pension Fund's own management of Panel and Board meetings and does not directly deal with its role as a responsible investor.

REQUIRED CORPORATE OR 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 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.)

<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENTS:

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.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	25 March 2022
Title:	Updates to the Responsible Investment (RI) policy
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 paper is to introduce proposed amendments to the Pension Fund's Responsible Investment (RI) policy recommended to the Panel and Board for consultation with LGPS stakeholders and which are summarised in the Fund's draft annual RI update for scheme members. These proposed changes to the Fund's RI policy have been agreed and are recommended to the Panel and Board by its RI sub-committee (RISC).

Recommendations

2. That the Pension Fund Panel and Board approves:
    - the proposed updates to the Responsible Investment policy for consultation with scheme members and employers;
    - that the annual Responsible Investment update is published;
    - that a further tranche of work from the Responsible Investment consultants, MJ Hudson Spring, is commissioned to again review the Pension Fund's investment portfolios and produce a plan for meeting the 2050 net-zero aim.

Background

3. The Pension Fund's RI policy forms part of its Investment Strategy Statement and is a requirement of the LGPS Investment Regulations 2016.

4. The Pension Fund's RI policy was substantially rewritten in 2019 following Members' review through the RI working group and the advice of Dr Rupert

Younger who had chaired Oxford University's Socially Responsible Investment Review.

5. Following the revisions to the RI policy the Fund consulted with scheme members and employers including:

   - launching a new section on the Fund's website for RI,
   - inclusion in the employers' newsletter,
   - an email to a sample of 500 deferred scheme members, and
   - inclusion in the newsletter that accompanies the pensioners' annual payslip.

Updates to the RI policy

6. The RI policy includes proposed updates which have been discussed and approved by the RISC, based on feedback received from the RI consultants Minerva and key areas that have been brought out in Members' discussions and representations from scheme members. The draft policy is attached in Annex 1 with proposed changes highlighted.

7. Minerva have been commissioned by the ACCESS pool to review the pool's RI policy. In so doing they have reviewed each of the 11 ACCESS authorities' RI policies and provided feedback. Updates to the policy are proposed where Minerva have suggested that further clarification would be beneficial. In particular a section on the Fund's RI beliefs that form the basis of the policy have been included. Of these, the most significant areas that the Pension Fund has not previously documented are:

   - the Pension Fund 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, and
   - to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a *Just Transition.*

<u>Net-zero 2050</u>

8. The proposed policy includes a statement that the Pension Fund 'commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050'. This aim reflects the advice of Minerva that setting a strategic goal will assist the Pension Fund in focusing its activities and also reflects the views that the Pension Fund has heard from scheme members, including a number of deputations. This aim is consistent with the Pension Fund's activities since the last revision of the RI policy, in particular the Fund's adoption of the recommendations of the Taskforce of Climate Related Financial Disclosure

(TCFD), the publication of carbon footprint data and the focus on working with investment managers to set targets and limits for the carbon output of the Fund's investments.

9. This proposed aim for the Pension Fund is consistent with the UK Government's net-zero strategy targeting 2050, which was published in October 2021, and reflects that the Pension Fund investment strategy contains a significant allocation to UK index-linked gilts.

10. It is recognised that in setting a net-zero aim the Pension Fund will need a plan to achieve this. This plan will build on the progress to date in agreeing amendments to five of the Fund's existing portfolios to move to lower carbon strategies or agree a limit to the carbon output of the portfolios. It is therefore proposed that in addition to agreeing the commitment to the aim for its investments to have net-zero greenhouse gas emissions by 2050, the Pension Fund commissions a further tranche of work from the RI consultants, MJ Hudson Spring, to again review its investment portfolios and produce a plan for meeting the 2050 aim.

<u>Fossil fuels</u>

11. The committee will be aware that it has been reported that the Pension Fund had £136m of investments in fossil fuel companies. This figure is taken from Friends of the Earth research across the LGPS published in February 2021. The figures quote Hampshire's total value of £7bn from March 2020, and the percentage in fossil fuel companies of 1.95%, compared with the LGPS average of 2.99%. Importantly the research is based on the Carbon Underground 200 index, which only includes companies owning reserves of fossil fuels, and not in wider supply chain for example in processing or selling fossil fuels.

12. The Pension Fund has reviewed with its investment managers the exposure to fossil fuels and renewable energy based on a fuller definition[1]. As at 31 December 2021 when the Pension Fund was valued at £9.9bn, £323m (3.3%) was invested in renewable energy[2] and £214m (2.2%) was invested in fossil fuel companies.

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[1] +10% revenue from extraction, mining and production of fossil fuels, or +50% revenue from fossil fuel services (distribution, retail, equipment, services, petrochemicals, pipelines/transportation, refining, trading or power generation)

[2] Based on the total of all revenues derived from any of; alternative energy, energy efficiency, green building, pollution prevention, sustainable water, or sustainable agriculture

13. The Pension Fund has previously stated that it believes in engagement over divestment as the means to promote RI beliefs. This has been repeated specifically in relation to fossil fuel companies where these are held because active investment managers believe they will help to meet the Fund's investment objectives, or they are in the passive indices that the Pension Fund tracks. The updated RI policy contains proposed amendments as follows, to explain why the Pension Fund believes this is important in relation to fossil fuel companies, which it is hoped will improve dialogue with scheme members:

- If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.

14. The Pension Fund recognises the economy still relies on many carbon-intensive industries for example manufacturing, mining, chemicals, cement and transport. Many companies in these sectors still rely on fossil fuels. It is known too that many people in their day to day lives consume products that are derived from fossil fuels for example plastic containers, synthetic clothes, medicines, shampoo – the list goes on. In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies we can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

15. This also reflects the Government's policy to 'encourage stewardship rather than disinvestment'. Government continues to believe this [disinvestment] would be the wrong approach – engagement with high carbon companies, when done effectively, can reduce the climate risk to which the scheme is exposed. At the same time, stewarding these firms to set a plan for the transition can have a greater impact on climate change than simply selling assets to others who might not hold investee firms to account'.

Thermal coal

16. The Fund's analysis of fossil fuel investments with its investment managers also included a breakdown of the types of fossil fuel investments. This showed that the Fund had the following exposure to thermal coal.

Table 1 – Exposure to thermal coal 31 December 2021

	£m	%
Passive	0.9	0.01%
Active	0.8	0.01%
Total	1.7	0.02%

17. Although the exposure is very small, thermal coal is the greatest challenge for the Fund's RI policy and the proposed aim for net-zero by 2050 due to the very high carbon emissions and lack of possible transition to lower carbon alternatives. This is consistent with the agreements reached at the recent global COP26 summit. The Fund's draft RI policy therefore includes working with the Fund's investment managers to remove thermal coal from the Fund's portfolios.

RI Standards and initiatives

18. Following the revisions to the 2019 RI Policy the Pension Fund signed the UN Principles for Responsible Investments (PRI), the UK Stewardship Code, and subsequently adopted the recommendations of TCFD. These have been important in framing the Pension Fund's approach to implementing its RI policy and showing the standards that the Pension Fund and its investment managers expect to work at. At the time that these standards were agreed it was signposted that further standards could be appropriate and the following are now proposed as part of the updates to the RI policy:

    - Just Transition – was a joint project of the London School of Economics and Grantham Research Institute on Climate Change and the Environment. It produced evidence that showed the shift to a resilient, low carbon economy will boost prosperity and be a net driver of job creation. But there will be challenges for workers, communities and countries as this shift takes place. To address this, investor strategies to tackle the growing threat of climate change need to incorporate the full range of environmental, social and governance (ESG) dimensions of responsible investment. There is no cost to declaring support for the Just Transition initiative.

    - Institutional Investors Group on Climate Change (IIGCC) - is the leading European membership body enabling the investment community to drive significant and real progress by 2030 towards a net zero and resilient future. There are 360 members representing €50 trillion of assets under management (including six of Hampshire's investment managers and two other ACCESS authorities). There are three clear areas of focus: policy, investor practices and corporate engagement reflecting the key investor levers for change. There would be an annual fee (currently £8,620) for joining this group.

- Transition Pathway Initiative (TPI) – is a global initiative led by asset owners and supported by investors globally. It assesses companies' (currently 479) preparedness for transition to a low-carbon economy and would be an additional tool to supplement stewardship and monitoring of the Fund's investment managers. There would be no cost to support TPI.

Scheme member communication and consultation

19. Given it is 3 years since the Pension Fund consulted on its RI policy and that the policy forms part of the Investment Strategy Statement, which carries with it the statutory requirement 'to consult such persons as it [the authority] considers appropriate', it is recommended that the Pension Fund consults with its stakeholders on what they consider should be the Fund's priorities when considering RI. It is proposed that the consultation would run from 1 April to 31 May 2022 and the results will be reported to the Pension Fund Panel and Board on 28 July 2022 with a recommendation on finalising the RI policy at that point.

20. On the basis that the proposed amendments to the policy are approved for consultation by the Pension Fund Panel and Board, a draft annual RI update has been prepared for scheme members, which is attached in Annex 2. This will be the Fund's third published annual update for scheme members and will be published on the Fund's website, highlighting the consultation, and will also be published on the scheme member Portal coinciding with when pensioners' payslips will be available and included with the pensioners' payslips that are still printed.

Climate Change Impact Assessments

21. 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.

22. 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.

23. 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. The key document for the Pension Fund in this respect is the Responsible Investment (RI) policy which is the subject of this paper.

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

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Investment Strategy Statement

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund (the “Fund”), which covers employees of the County Council, two unitary councils, 11 district councils, and 326 other scheduled and admission bodies. The total number of contributors is 59,000 and there are 78,834 deferred members and 45,576 pensioners (all as at 31 March 2021).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

Investment Strategy

The Fund has three main aims:

- To manage the employers’ liabilities to achieve long-term solvency. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund’s 2019 Actuarial Valuation, the Fund’s Actuary, Aon advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund’s Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund’s employers’ covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy. For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation below favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

	Minimum	Maximum
Growth assets – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds)	40%	70%
Income assets – Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit)	10%	45%
Protection assets - Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts)	10%	30%

Suitability of investments and receipt of investment advice

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The members of the Panel and Board annually complete a training needs analysis based on CIPFA's Knowledge and Skills Framework for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified. To fulfil the training needs of officers and members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

Strategic Asset Allocation

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

Investment sector	Interim % of Fund	Long Term % of Fund
Growth	48.0%	43.0%
Income	30.0%	40.0%
Protection	22.0%	17.0%
Total Fund	**100.0%**	**100.0%**

In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with the County Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2017 following the Fund's last triennial actuarial valuation and the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and Board and at least every 3 years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. Since the implementation of the Strategic Asset Allocation the Pension Fund has taken advice from MJ Hudson on the appointment of investment managers and transition management. The Fund's current investment managers are shown in Annex 2.

At the 2019 valuation 1.6% of the Fund's liabilities were orphan liabilities. The Administering Authority's policy is to minimise the risk to the participating employers in the Fund by matching the value of the orphan liabilities to an equal amount of index-linked gilts from the Fund's investments. The Administering Authority currently operates a single investment strategy as outlined above, so the Fund Actuary notionally allocates index linked gilts to the orphaned liabilities within the valuation calculations, with the balance of the Fund's investment returns credited to the participating employers.

Approach to risk

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies, contained in Annex 3, which is reviewed at least annually by the Panel and Board. The Pension Fund maintains a risk register to identity key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

Approach to pooling

Hampshire is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The first investments that were pooled are passively managed investments, and Hampshire also now has four active equity mandates invested through the pool operator, Link Fund Solutions. The Operator is currently working to launch further sub-funds throughout 2021/22 and ACCESS has commissioned further work to facilitate the pooling of other asset classes.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS' website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Hampshire will not be pooling its allocation to directly held UK property (10% of its Strategic Asset Allocation). As set out by the ACCESS funds in their July 2016 submission to the Government, there is a dis-economy in pooling direct property investments due to the cost (principally tax) of making changes to portfolios and the limited anticipated savings available from pooling.

In addition, Hampshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

Responsible Investment Policy

1. Rationale, definition and beliefs

The Pension Fund's investment principles include:

i. that it has a long term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.4%pa), and

ii. a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG) factors, which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community. This document sets out how the Fund's RI responsibilities are delivered in line with these principles.

The Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to ESG. The PRI provides the following examples of ESG factors:

- **Environmental** - climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- **Social** - working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety (including health inequalities), employee relations and diversity
- **Governance** - executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy

This policy is based on the following key RI beliefs:

- RI considerations are important, particularly over the longer term to both protect and enhance long-term investment return and maintain alignment to stakeholders' values.
- RI considerations apply to all asset classes, but different asset classes may mean the management and implementation is different.
- Responsible management of RI Issues is a reputationally important issue.
- The Pension Fund expects the consideration of ESG factors to be incorporated into the portfolio construction process of all investments made by our investment managers.
- The Pension Fund views climate risk - and the issues which contribute to it - as a key risk to the Fund and of significant concern to all stakeholders (and understands that many have called this a Climate Emergency),
- As a result the Pension Fund 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, which is its most prominent area of focus for responsible investment.
- To address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a *just transition*.
- The Pension Fund believes in engagement over divestment as the means to promote RI beliefs – however, choosing not to own an asset remains an option if the Pension Fund believes that ESG issues are not suitably addressed and that this would be supported by a significant majority of scheme members and employer

- Exercising ownership rights through voting is an important plank of implementing this RI policy and this can be enhanced working collaboratively with other like-minded investors.

The Pension Fund commits to the aim for its investments to have **net-zero greenhouse gas emissions by 2050**. This is in line with the UK Government's own target for net-zero emissions by 2050, and a number of employers in the Hampshire Fund declaring Climate Emergencies. The Pension Fund's aim is set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met. The Pension Fund is working with its specialist RI advisor to develop a plan and trajectory for how it can achieve its Net-Zero aim.

2. Investment Strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors that are actively taken into account as part of the Pension Fund's overall investment strategy; as part of the Fund's selection of its investment managers, how the Fund will scrutinise its investments and how it will transparently report on its investments based on these factors. This approach has been communicated to the Fund's investment managers who have confirmed they conform to this policy. The ability to consider and manage ESG issues will be part of the evaluation of investment managers and other suppliers to the Pension Fund, and forms part of the specification and contracts for services.

Stock/Sector Exclusions and Social Impact investments

The Pension Fund's primary policy is not to disinvest and prohibit its investment managers from investing in any particular company or sector. Where investment managers select companies either as part of active portfolios or passively as they are part of an index, the Pension Fund expects its investment managers to use the Pension Fund's influence as an investor to achieve the best outcome for investors on ESG issues.

The Pension Fund is aware that the issue of whether to disinvestment is particularly relevant to Climate Change and investment in companies involved with fossil fuels. The Pension Fund does believe that Climate Change is of significant concern but that disinvesting from fossil fuel companies at this time is not the solution:

- If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.

- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.

- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
- The economy still relies on many carbon-intensive industries, for example manufacturing, mining, chemicals, cement and transport, and many people rely on products that are derived from fossil fuels for example plastic containers, synthetic clothes, and medicines. In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies the Fund can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

This also reflects the Government's policy1 to 'encourage stewardship rather than disinvestment'. Government continues to believe this [disinvestment] would be the wrong approach – engagement with high carbon companies, when done effectively, can reduce the climate risk to which the scheme is exposed. At the same time, stewarding these firms to set a plan for the transition can have a greater impact on climate change than simply selling assets to others who might not hold investee firms to account'.

The Pension Fund's focus is on measuring and reducing the carbon footprint of all the companies it invests in, not just fossil fuel companies, and working with its investment managers to find ways to reduce the overall carbon footprint in line with its aim to have net-zero emissions by 2050, whilst continuing to achieve the investment returns that are required to pay pensions.

The PFPB will consider disinvestment or exclusion of a particular stock, industry or country or investment in specific 'social' investments where, based on an evaluation of ESG factors including the points above, it believes that the decision would be supported by a significant majority of scheme members and employers; the PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

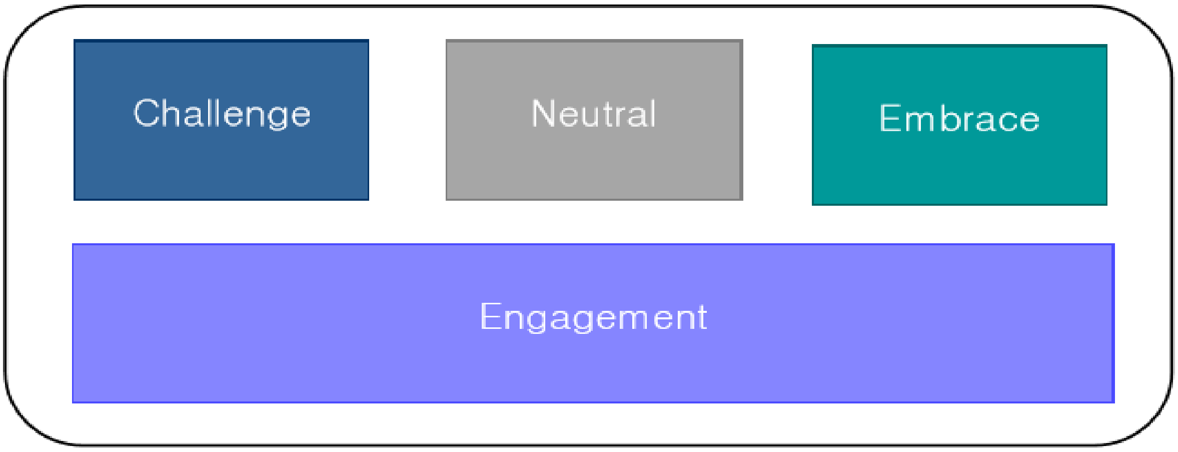
Although the PFPB believes that most fossil fuels are still required currently to support the economy and the transition to a low-carbon world, this is with the exception of Thermal Coal. This is the coal that is used to generate electricity, for which there are cleaner alternatives and therefore which is not necessary for the transition to a low-carbon economy. This is consistent with the agreement of more than 40 countries at the United Nations' recent COP26 summit in Glasgow to shift away from the use of coal. The Pension Fund will work with its investment managers to remove this exposure from its investment portfolios.

[1] Local Government Pension Scheme investments, House of Commons Library CBP-7309.pdf (parliament.uk)

3. Framework and Approach

Consideration of ESG in Investment Decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.
- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to 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 (see separate section below on Exercising Voting rights).

Quantitative investment managers

These investment managers employ particular automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similarl to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non passive) to its active investment managers. All of the Pension Fund's active equity managers are invested in via the ACCESS pool, and over time, the Fund would expect that active managers for all asset classes are invested in via ACCESS. Investment managers in the ACCESS pool will be subject to ACCESS's RI guidelines, which accord with Hampshire's policy requiring its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

To ensure that ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- Detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco.
- Negatively contributing to Climate Change or other environmental issues, such as pollution and the use of plastic.
- The impacts of Climate Change.
- Poor corporate governance, systems of control and a lack of transparency.
- A senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests.

- The detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay.
- Dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk.
- Any outcome damaging to human rights.
- Reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once the Fund has committed its investment it cannot control the underlying investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect the quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

Responsible Investment Sub-Committee

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities:

a. to review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected

b. to provide a forum for considering representations to change this Policy and/or the Pension Fund’s responsible investment practices relating to it;

c. to engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy;

d. to receive any relevant training on ESG issues;

e. to review investment managers’ company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate;

f. to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate;

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

Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the County Council's website at www.hants.gov.uk. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund’s investments. Details of the declared interests of County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council’s website under each member’s name and updated on a regular basis.

4. Exercise of rights attaching to investments

Each of the Pension Fund’s investment managers is asked to work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund’s responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers. The Fund's investment managers should cast their votes with this in mind.

In particular, the Fund's investment managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that investment managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any investment manager's opinion, special circumstances to justify it
- in the investment managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

The Pension Fund's equities are available for Stock Lending, via the programme agreed as part of the ACCESS pool. The programme includes the provision for investment managers to recall stocks from the lending programme, should this be necessary voting at company meetings.

5. Monitoring, Reporting and Next Steps

Reporting

Scheme members were consulted on the original version of this RI policy in 2019. Any comments on ESG issues are reported to the RI sub-committee as a standing item at each meeting.

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow these guidelines. The reports of the investment managers on their consideration of ESG factors, their company engagement and collective engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

The following table shows how the Pension Fund sets its policy and reviews its progress including complying with the various standards it has adopted.

	Frequency	**Where to find it**
Strategies and policies		
Investment Strategy Statement	Reviewed annually	Policies | Hampshire County Council (hants.gov.uk)
Responsible Investment Policy	Reviewed annually	Policies | Hampshire County Council (hants.gov.uk)
External Reports		
Annual Report and Annual RI Update	Annual	Annual reports and accounts | Hampshire County Council (hants.gov.uk)
TCFD Report	Annual	Responsible Investment | Hampshire County Council (hants.gov.uk)
UK Stewardship Code Report	Annual	Responsible Investment | Hampshire County Council (hants.gov.uk)
PRI report	Annual	Results published in 2022
GRESB report	Annual	Tbc
Internal reports		
Stewardship report to the RI sub-committee	Bi-annual	Committee details - Hampshire Pension Fund Responsible Investment Sub-Committee | About the Council | Hampshire County Council (hants.gov.uk)
Investment manager voting reports	Quarterly	Responsible Investment | Hampshire County Council (hants.gov.uk)

RI Standards

The Pension Fund supports and/or is a member of the following initiatives that aim to promote RI for investors and positive changes in management of ESG factors:

- UK Stewardship Code 2020 – The Pension Fund has been accepted as a signatory of the 2020 Code (one of only six initial LGPS signatories), which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund has produced a Stewardship Code statement that sets out on a ‘apply or explain’ basis how it meets the 12 principles of the Code UKStewardshipcodecompliancestatement.pdf (hants.gov.uk)

- Principles of Responsible Investment (PRI) – The Fund is a signatory to the PRI, which was founded by the United Nations and is the world's leading proponent of responsible investment. In becoming a signatory the Pension Fund has committed to the PRI's six principles for RI. More information can be found here: About the PRI | PRI Web Page | PRI (unpri.org)
- Taskforce on Climate-Related Financial Disclosure (TCFD) – the Pension Fund supports TCFD which aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The Pension Fund reports in line with recommendations of TCFD TCFD-report.pdf (hants.gov.uk)
- Institutional Investors Group on Climate Change (IIGCC) - The Fund is a member of the IIGCC. The Fund has made a public net zero commitment. As part of its membership the Fund benefits from educational materials, webinars, and the net zero framework, which will help the Fund achieve the target of net zero by 2050. More information can be found here: https://www.iigcc.org/
- Transition Pathway Initiative (TPI) - The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level of management quality and carbon performance, to aid in risk assessment. More information can be found here: https://www.transitionpathwayinitiative.org/
- Just Transition - A "just transition" means not transitioning to a low carbon economy at any cost, but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support, and uses the guide to help embed this goal within the Fund's policies, and help hold our investment managers to account. More information is available at the following link: Investing in a just transition - global project - Grantham Research Institute on climate change and the environment (lse.ac.uk)

The Pension Fund will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire's RI policy.

RI Priorities for the Coming Year

The following topics have been identified as specific priorities for the coming year:

- Repeat of external assessment of the ESG risks and issues across the Pension Fund's portfolio.

- Improvement of the Pension Fund's RI webpage.
- Continuation of expanding the availability of carbon data for the Pension Fund's investments

Annex 1 – Investment Beliefs

Belief: Clear and well-defined objectives are essential to achieve future success

The Pension Fund Panel and Board is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Strategic asset allocation is a key determinant of risk and return

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

Belief: Funding and investment strategy are linked

The Panel and Board understands that a number of funding related aspects feed into investment strategy decisions, including maturity and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel and Board.

Belief: The Panel and Board will take an appropriate level of investment risk

As a long term LGPS Fund the Panel and Board acknowledge the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

Belief: Long term investing provides opportunities for enhancing returns

The Panel and Board believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long-term returns

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

Belief: Alternative investments provide diversification

The Panel and Board believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

Beliefs: Market inefficiencies will provide opportunities to add value over time

The Panel and Board belief that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long term target.

Belief: Active management can add value

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the

Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a RI Sub-Committee.

Annex 2 – Current investment management arrangements

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
High-performance global equities	Link Fund Solutions (Acadian Asset Management)	MSCI World Index	+1.5-2.5% net
	Link Fund Solutions (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Dodge & Cox).	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
Passive Global Equities	UBS Asset Management	FTSE All World Equity Index	
		FTSE RAFI All-World 3000	
		MSCI World Min Vol	
		MSCI World Quality	
Private equity	abrdn		+9%-11.5% net
Hedge funds (legacy portfolio)	Morgan Stanley		+5.5%-8% net
Infrastructure	Grosvenor Capital Management		+7.5%-10% net
Private debt	JP Morgan Alternative Asset Management	LIBOR	+4% net
Multi-asset Credit	Alcentra	LIBOR	+3% net
	Barings	LIBOR	+3% net
Passive UK index-linked bonds	UBS Asset Management	FT British Government Over Five Years Index-Linked Gilts Index	

Portfolio	**Investment Manager**	**Benchmark**	**Annual target performance gross/net of fees**
UK property	CBRE Global Investors	Retail Price Index (RPI)	+3.5% net
Asset Backed Securities	Insight Investment	LIBOR	+2% gross
	TwentyFour Asset Management	LIBOR	+2% gross

Our commitment to Responsible Investment

We believe in the importance of **Responsible Investment** – considering social, environmental and corporate governance factors, and their influence on investment returns.

We, like our stakeholders, consider **climate change** and the issues that contribute to it as a major concern – and rightly so, it lies at the heart of our Responsible Investment activities.

We support the Paris Agreement, and the Hampshire Pension Fund is committed to the aim for its investments to have **net-zero greenhouse gas emissions by 2050**.

Engaging with fossil fuel companies

We believe that there are significant climate change mitigation benefits that come from our engagement as a shareholder with fossil fuel companies.

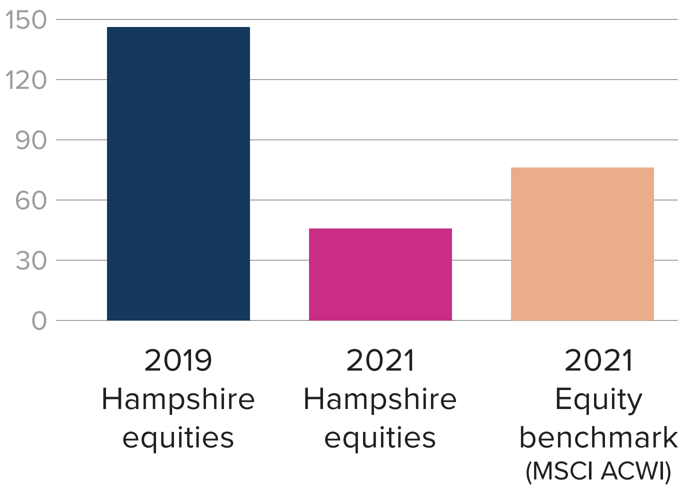
Simply disinvesting from all fossil fuel companies is not a straightforward solution to tackling climate change. This is because:

- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a *Just Transition* - that the benefits of a low carbon economy transition are shared widely, ensuring that those who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
- If the Pension Fund sells its shares in fossil fuel companies, we will lose our ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
- In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies we can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

Our progress so far

The carbon footprint of the Companies which the Pension Fund invests in through owning shares has dropped by 69% since 2019 and is 40% below the current benchmark for equities[1], as shown below:

Carbon footprint (tCO2e/£m invested) 31 December 2021



[1] The benchmark we compare our share/equity holdings against is the MSCI ACWI benchmark
www.msci.com/our-solutions/indexes/acwi

This reduction in carbon footprint has been achieved through measuring the carbon footprint of all the companies we invest in, not just fossil fuel companies, and working with our investment managers to find ways to reduce the overall carbon footprint, for example setting limits for carbon output and moving to investment strategies that are aligned to the Paris Agreement or are *Climate Aware*; these lower carbon investment strategies now account for 85% of the Fund's shareholdings/ equity investments.

At the 31st December 2021, the value of the Pension Fund's investments was £9.9bn; of which £323m (3.3%) was invested in renewable energy and £214m (2.2%) was invested in fossil fuel companies[2].

Your feedback

The Pension Fund will be consulting from **1 April 2022 to 31 May 2022** on scheme members' and employers' views on our Responsible Investment Policy and in particular our policy on managing the Funds impact on climate change.

This consultation can be accessed online on the Pension Funds website and we would encourage you to provide your feedback:

hants.gov.uk/hampshire-services/pensions/responsible-investment

[2]Some third-party sources may report a lower level of investment in fossil fuels – our figure includes companies involved in all aspects of the fossil fuel supply chain, rather than simply those with reserves of fossil fuels.

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Agenda Item 15

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