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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Responsible Investment Sub-Committee
Date and Time	Friday, 4th March, 2022 at 10.00 am
Place	Denning Room, 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

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. MINUTES (Pages 5 - 10)

To confirm the minutes of the last meeting on 7 September 2021.

4. DEPUTATIONS

To receive any deputations.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. STEWARDSHIP HIGHLIGHT REPORT (Pages 11 - 30)

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

7. SCHEME MEMBER COMMUNICATION (Pages 31 - 36)

To receive a report from the Director of Corporate Operations updating the sub-committee on communication to and from scheme members since its last meeting in September 2021.

8. UK STEWARDSHIP CODE AND TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) (Pages 37 - 72)

To consider a report from the Director of Corporate Operations introducing draft updates to the Pension Fund’s UK Stewardship Code report and TCFD report for 2022.

9. EXCLUSION OF PRESS AND PUBLIC

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

10. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 73 - 76)

To confirm the exempt minutes of the meeting held on 7 September 2021.

11. UPDATES TO THE RESPONSIBLE INVESTMENT POLICY (Pages 77 - 106)

To consider an exempt report from the Director of Corporate Operations introducing proposed amendments to the Pension Fund's Responsible Investment (RI) Policy.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually on Tuesday 7 September 2021.

Chairman:
* Councillor M. Kemp-Gee

Vice-Chairman:
*Councillor T. Thacker

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

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

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

*present

1. **ELECTION OF A CHAIRMAN**

Mr Hodgson opened the meeting and asked for nominations for Chairman.

RESOLVED:

a. That Cllr Kemp-Gee was confirmed as Chairman.

2. **ELECTION OF A CHAIRMAN AND VICE-CHAIRMAN**

The Chairman proposed Cllr Thacker as Vice-Chairman.

RESOLVED:

a. That Cllr Thacker was confirmed as Vice-Chairman.

3. **APOLOGIES FOR ABSENCE**

Cllr Dowden and Dr Bartle sent their apologies.

4. **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.

5. **CONFIRMATION OF MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 5 March 2021 were confirmed.

6. **DEPUTATIONS**

No deputations were received.

7. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed the new members of the committee and looked forward to the upcoming Local Government Chronicle conference in Leeds which had an Environmental, Social and Governance (ESG) focus.

The Chairman highlighted to members that since this meeting's agenda was published he had received over 100 emails from scheme members based on a template asking for the RI sub-committee to align the Fund's investment strategy with the goal of keeping the global temperature rise this century to no more than 1.5 degrees Celsius above pre-industrial levels, and to revisit a number of governance decisions made by the Pension Fund Panel and Board over the last year. The Chairman informed Members that a reply would be sent to all of the emails received and the Members asked to see a copy of the original email and the response that had been sent.

In addition the Chairman drew Members' attention to an email that had been sent to the sub-committee in relation to the Pension Fund's investment in Suncor held in Dodge & Cox's global equities portfolio.

8. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 6 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 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 a deputation to the Pension Fund Panel and Board and correspondence received by a number of Members of the County Council from the LGPS Divest Campaign. The correspondence to date has been received from a very small minority of the nearly 183,000 scheme members.

9. **STEWARDSHIP HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 7 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 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.

10. **CLIMATE CHANGE SCENARIO ANALYSIS**

The RI Sub-Committee received and noted a report from the Director of Corporate Operations (Item 8 in the Minute Book) summarising an exercise engaging with its investment managers on scenario analysis on the impact of Climate Change on the Pension Fund's investments. The Pension Fund is a signatory to the Principles for Responsible Investment (PRI) and has adopted the reporting principles of the Taskforce on Climate Related Financial Disclosures (TCFD). The TCFD framework includes the requirement to *'describe the resilience of the* *organisation's strategy, taking into consideration different climate related scenarios'*. Having discussed with its consultants, MJ Hudson Spring, the Pension Fund has decided that for its first climate related scenario it would ask its investment managers to consider the impact of the *Inevitable Policy Response* policy forecasts developed by the PRI.

The Pension Fund received a variety of responses from its investment managers, ranging from those where further work would be required to be able to fully assess impact, to those that have undertaken their own detailed modelling in producing their response. Although the responses received have varied, this is partly due to this sort of exercise being fairly new to the sector, and as time passes it is expected that an improved level of information will be received, as it becomes more commonplace for investors to adopt the reporting principles of the TCFD. Therefore at this point it is too early to report on findings due to the range of depth in which investment managers are currently able to respond. The engagement exercise between the officers and the investment managers has gone well, providing a number of learning points for the Pension Fund:

11. **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.

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

The exempt minutes of the RI Sub-Committee held on 5 March 2021 were confirmed.

12. **ACCESS DRAFT RI GUIDELINES**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 11 in the Minute Book) to allow the RI sub-committee to consider the draft ACCESS RI guidelines. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

13. **UBS AND BARINGS PORTFOLIOS**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 12 in the Minute Book) on progress on considering options for reducing the carbon footprint of the investments in the UBS passive factor portfolios and proposals for reducing the carbon footprint of Barings' multi-asset credit portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	4 March 2022
Title:	Stewardship highlight report
Report From:	*Director of Corporate Operations*

Contact name: Mike Chilcott

Tel: 0370 779 2620 **Email:** mike.chilcott@hants.gov.uk

Purpose of this Report

1. This report provides information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets, their engagement with the management of the companies the Pension Fund invests in, including how the investment managers have voted on behalf of the Fund during the period July to December 2021.

Recommendations

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

Executive Summary

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

4. The Fund recognises that there are different expectations for its investment managers in terms of how investment managers engage with companies, but as a minimum all are expected to engage with invested companies on areas of concern related to environmental, social and governance (ESG) issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments. In addition, the Fund's active investment managers are required to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. Paragraphs 11 onwards of this report provide examples of how the Fund's active investment managers have engaged with the management of the companies the Fund is invested in.

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

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

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

   - Equities directly held directly in the ACCESS pool (Acadian's Low Volatility portfolio, Baillie Gifford's Long-term Global Growth and Global Alpha portfolios and from January 2022, Dodge & Cox's Global Stock Fund portfolio) will be voted in accordance with ACCESS's voting guidelines, which were agreed by the Joint Committee.
   - Equities in pooled funds of external investment managers (such as UBS-AM) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund.

8. Dodge & Cox moved to a segregated portfolio within ACCESS in January 2022 and so will be improving the frequency of reporting to a quarterly basis going forward. This report contains voting information up to 31 December 2021.

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

10. The Pension Fund publishes its investment manager's voting reports online:

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

Engagement highlights

11. In order for the Responsible Investment (RI) Sub-Committee to scrutinise the engagement activity of the Pension Fund's investment managers, the following paragraphs provide a summary of engagement highlights from the second half of 2021. The Pension Fund's investment managers have been challenged to provide engagement examples of where they have engaged on Climate Change and investments in Israel (which have both been the most prominent issues recently raised by the Pension Fund's scheme members), where they have engaged collaboratively and where there is a risk they feel their engagement may not be successful.

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

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

Acadian

14. **European Materials company** – this example is related to reducing not just carbon emissions, but also broader environmental issues. The company's bauxite mine is located in the Amazon Basin. Due to the nature of mining Acadian has asked the company how it assesses its impacts on the local ecosystems. The main environmental issues in bauxite extraction and alumina refining include waste disposal and greenhouse gas emissions. Waste production includes significant amounts of mineral rejects (tailings) from the bauxite extraction process and bauxite residue from the alumina

refining process. Bauxite residue is a waste product of the alumina refining process. Its disposal is challenging due to large volumes and the alkaline nature of the liquid component of the residue. The residue is washed with water to lower the alkalinity and to recover caustic soda for reuse.

15. The company's sustainability report states that it has set a target to rehabilitate the impacted areas 'as soon as practically possible'. Acadian has asked the company to outline its targets and to provide details of a socioeconomic study it conducted to assess biodiversity impacts and a need for compensatory measures to affected communities.

16. In the case of spent potlining (SPL), a hazardous waste, from aluminium production, the company has stated that it is actively trying to find alternative use of SPL, aims to recycle 65% of SPL by 2030, and find more sustainable solutions for waste streams.

17. **U.K. Capital goods company** – Acadian engaged with regard to supply chain control and human rights issues. The company specializes in international distribution and services and supplies a range of consumable products including food packaging, disposable tableware and catering equipment, cleaning and hygiene supplies, packaging to customer markets including grocery, foodservice, cleaning and hygiene. The company’s sustainability report states that 98% of its supply chain is in Asia where it has the largest proportion of supplies situated in countries identified by the Global Slavery index as high-risk for human rights issues. In 2020, the company conducted an audit and undertook remediation efforts to bring 61 suppliers up to required standards and are terminating contracts with 15 suppliers that failed to make progress.

18. In addition to this Acadian asked the company to detail further its approach to forced labour and how it evaluates suppliers following contract termination. This was escalated by asking for further detail about the company’s approach to forced labour.

Baillie Gifford: Global Alpha

19. **CRH** (building materials company) – Baillie Gifford had a call with the chairman of the company to discuss CRH's corporate governance and approach to sustainability. Two new board appointments incorporate feedback from shareholders, including Baillie Gifford, on adding industry experience to the board. This dialogue continued on the company's efforts to improve efficiency and reduce its carbon emissions. In September, the Global Cement and Concrete Association, of which CRH is a member and CEO Albert Manifold is president, announced a joint ambition to achieve carbon neutrality by 2050. Concrete is the world's most widely used material. It is essential to social and economic development and its production is

carbon intensive. Accordingly, this ambition is important in addressing effects of climate change. CRH will not count offsets as part of its strategy to reduce its carbon footprint. Instead, it is working with industry bodies to ensure technological solutions are developed. Investment in new infrastructure, carbon capture technologies and collaboration provide the best chance of delivering on this long-term objective. While recognising the environmental impact of CRH's business, Baillie Gifford are reassured by its progress to mitigate these effects. Furthermore, it is believed the company aspires to lead the industry in striving for a more sustainable future.

20. **Booking Holdings -** When Baillie Gifford spoke to the business last year, they were in the process of drafting a Human Rights policy. This document is designed to outline Booking's due diligence process for its activities in contentious regions, and more specifically, highlight key protocols for the Occupied Palestinian Territories (OPT). The update from the recent engagement is that whilst a formal policy statement is still be completed, there has been an enormous amount of work behind the scenes to put the building blocks in place. Specifically, a structured programme of dialogue has been put into action to incorporate views from 7 key stakeholder groups. They include both pro-Palestinian and pro-Israeli associations, Human Rights Watch, Amnesty International and the UN Commissioners Office. Also, this programme of engagement is being directed by a triumvirate – namely an internal project manager, external legal counsel and the sustainability consultant BSR. Baillie Gifford are normally sceptical about companies outsourcing their ESG responsibilities to 3rd parties but in this instance, given the highly charged and contentious issues involved, it's an appropriate course of action. It should also allow feedback and input to be candid. Once complete, the Human Rights statement will be signed off by the board of directors. Thirdly, the company appears genuinely open to all options, from ceasing to operate in the OPT, to maintaining the status quo. And everything in between.

21. **Rio Tinto** – Baillie Gifford engaged extensively with Rio Tinto and third parties on the Juukan Gorge disaster in 2020 and 2021. Following the interim parliamentary inquiry into the incident, there was engagement as part of the Investor Forum and the Australasian Centre of Corporate Responsibility's briefing in the fourth quarter of 2020 was attended. The inquiry identified failings which led to the destruction of the Juukan Gorge site. Baillie Gifford also spoke with the UK Investor Forum and the Australian Council of Superannuation Investors in the first quarter of 2021. The focus of the stewardship work has been to promote governance practices which support responsible operating behaviour and the creation of long-term stakeholder value.

22. Baillie Gifford owned a **US holdings company** from 2014 until early 2021. In early 2020, they engaged with the Compensation Committee on the issue of discretionary bonuses that were due to be paid to management, despite triggers from the company's own Long Term Incentive Plan not being met.

Nevertheless, the company pressed on and so Baillie Gifford voted against both the pay package and the re-election of the Chair of the Compensation Committee. For Baillie Gifford, this became a broader issue, of an organisational culture not aligned to the long-term interests of clients and was one of the factors taken into account when it was decided to sell the holding.

Baillie Gifford: Long Term Global Growth (LTGG)

23. **Cloudflare** - has announced four major initiatives to reduce their environmental impact and help the Internet as a whole to be more environmentally friendly. One of the initiatives allows Cloudflare developers to choose to run their workloads in the most energy efficient data centres. Making the company one of the first major cloud computing vendors to offer developers a way to optimise for the environment without any additional cost. This programme was a direct result of a suggestion Baillie Gifford made during their climate engagement exercise with the company.

Dodge & Cox

24. **Glencore** - Glencore is a Metals and Mining company that has been very vocal during Dodge & Cox's conversations with management about reducing its scope 1-3 emissions. Dodge & Cox has also engaged with management about the company's coal exposure and how it may be leading to a discounted valuation versus peers. Dodge & Cox will continue to engage with management on Glencore's coal exposure and the potential for a separation from coal, as well as on other topics Dodge & Cox deem material.

25. **Booking Holdings** - Booking Holdings is currently the largest online travel agency, and includes the brands Booking.com, KAYAK, and Rentalcars.com, among others. While Dodge & Cox are aware of the concerns around Booking's involvement in Israel, at this time Dodge & Cox do not believe these concerns pose a material risk to the long-term value of the company's business as the company currently operates in 220 countries around the world. When Dodge & Cox believes an issue is material to their investment thesis, Dodge & Cox may engage with management and the board to understand how they are thinking about the issue. Dodge & Cox did not engage Booking on its involvement in Israel in the last 12 months.

UBS-AM: passive equities

26. **Anglo American Plc** - The Company was identified for engagement as UBS-AM sought greater disclosure on Anglo American's climate-related targets and related impact on the Company's strategy and corporate finance. UBS-AM engaged with the Company through the Climate Action 100+ coalition discussing a number of climate-related topics, including details on

the Company's pathway to net zero by 2040, targets setting, scenario analysis, their approach to Scope 3 and associated business implications. The Company's climate report, published at the end of 2021, provided good clarity of actions to achieve Scope 1 & 2 targets. UBS-AM will continue to engage with the Company as the investment manager would like to see more narrative and additional information on Scope 3 ambitions.

27. **Exxon Mobile Corp.** - The Company was identified due to its lack of commitment to transition away from fossil fuels towards a low-carbon business strategy, and the track record of the Company's management was below industry average. UBS-AM assessed the company using the UBS-AM climate scorecard which provides a systematic baseline linked to the TCFD for climate-related engagements. The investment manager engaged with the Company through the Climate Action 100+ investor coalition. UBS-AM set engagement objectives aimed at encouraging the company to develop a stronger sense of direction in terms of greenhouse gas (GHG) reduction ambitions, the strategic impacts of climate change, and to develop an action plan for transition. At the end of 2020, the Company announced GHG reduction targets to aim at decreasing carbon intensity of its upstream business. However, these targets were limited in scope and were weaker than most of its industry peers. UBS-AM noted that over the course of the engagement, the Company was reluctant to address the key question of the changes it needs to make in order to reflect the pressures on its business model from climate change. UBS-AM decided to exclude this company from the *Climate Aware* fund, which Hampshire has transferred its passive global equities to.

28. **NatWest Plc** - The Company had a change in ESG strategy in 2019. UBS-AM met with the Head of Debt Capital Market Treasury to discuss a suite of new ESG disclosures NatWest has released on ESG, climate and green, social, and sustainable bond frameworks which follow on a change of strategy in November 2019. The Company confirmed that their purpose led strategy will include a focus on climate. Their climate strategy reflects the consensus of banks converging around net zero but is more ambitious than peers. Other climate goals are climate positive from own operations by 2025 which they plan to achieve through electrifying their fleet and by using carbon offsets.

29. **Equinor ASA** - The Company came to UBS-AM's attention in February 2017 as one of the world's top 100 GHG emitters and was included in the engagement focus of Climate Action 100+. The company was identified for engagement for concerns over carbon emissions trends, fossil fuel exposure, weak disclosure levels, or the absence of climate change policies and targets. UBS-AM joined the Climate Action 100+ coalition to provide consistent and coherent messaging and committed to leading the Climate Action 100+ coalition for this company. Portfolio managers, analysts and Systems Integration analysts have been in contact with company representatives, including Board members, in the context of investor and

Climate Action 100+ meetings and have established engagement objectives. The Company has strongly committed to increase capacity and investments in renewables, hydrogen and carbon capture, utilisation and storage (CCSU) and executive pay will be updated to include new climate targets. The company is gradually undertaking a climate transition, complementing energy producing portfolios with renewable and other low-carbon energy solutions. It has already become the world's largest offshore wind operator.

Barings (multi-asset credit)

30. **Healthcare company** - Barings was approached in September 2021 to look at a new transaction for a healthcare company providing rehabilitation and mental health services. Barings’ due diligence process had highlighted previous care quality issues at certain health facilities within the group. As such, the company had been rated poorly in the social category under Barings’ internal ESG Ratings criteria. During the debt syndication process, the company intended to include sustainability key performance indicators (KPIs) into its finance terms in order to reduce interest costs on achievement of targets including reduced carbon emissions at facilities. Barings actively engaged with arrangers, senior management and the financial sponsor to push for the addition of KPIs linked to quality of patient care metrics given this was viewed as a key sustainability risk area. Ultimately, Barings was successful in achieving the addition of the requirement for independent third-party quality ratings on medical facilities to meet certain predetermined thresholds. A failure to meet targets would result in higher interest costs for the company.

31. **Global e-commerce business** - During initial due diligence on a global e-commerce business, Barings identified a potential governance risk due to the company founder serving as the current CEO & Chairman and remaining a major shareholder. Following a public market listing, additional disclosures became available and scrutiny on the shareholder control structure and inter-company relationships of the owner presented additional governance concerns.

32. In October 2021, Barings collaborated with other equity and fixed income market participants in an engagement organised by Investor Forum. The aims of the engagement are to improve the shareholder voting structure, make independent board appointments, and obtain additional details in divisional disclosure. During the period, Barings also reduced holdings in the company on a relative value basis, with a preference to wait for corporate governance improvements before increasing exposure. The collaborative engagement remains ongoing and has been partially successful to date following announced improvements to the shareholder voting structure.

33. **Indonesian coal miner -** Barings divested from an Indonesian coal miner after multiple engagements on the environmental risks within its coal

business for which Barings didn't receive any positive traction with management around measuring or setting targets for its scope 1,2 or 3 emissions or any clear plan regarding environmental risks.

Alcentra (multi-asset credit)

34. **Global chemical company** – Alcentra engaged regarding climate change and other environmental issues with the objective to better understand i) their long-term climate strategy and ii) management of hazardous chemicals. As a result they spoke with the Head of IR and Group Technology Director, who provided assurance that hazardous chemicals are not a material business for the group. The company has identified their plans to phase out fluorinated chemicals that may be restricted or banned in the future. The company recently announced a number of low-carbon projects in Europe, including green hydrogen and CCSU investments, which will assist in their GHG emission reduction efforts, with a goal of reaching net zero emissions by 2050. Alcentra will monitor the company's publication of their interim 2030 reduction targets and progress against these.

35. **UK retailer (petrol stations operator)** – Alcentra engaged with the objective of raising concerns about the governance of the company and internal controls. As a result, Alcentra engaged with management to voice concerns about lack of independent directors in the board and to better understand the steps the company was taking to improve its internal controls. The board took positive steps to improve its governance by appointing an independent director. The change in board composition made Alcentra feel comfortable that the company was moving in the right direction and mitigating governance-related risks.

Insight (asset backed securities (ABS))

36. Although generally Insight's engagements are positive with companies who are looking to improve their management of ESG risks, they are sometimes unable to encourage the originators to make the changes Insight requires to be comfortable to invest. An example would be a **residential mortgage-backed lender**, who specialised in non-conforming 2nd lien mortgages. There were a number of reasons for Insight to decline investing in the opportunity, some of which were not rectified upon engagement. Firstly, the company had an unstable management and governance framework. Secondly, the issuer was not able to provide reliable data to Insight on the underlying loans. Lastly, Insight reviewed their "treating customer fairly" processes, which while viewed as adequate against regulatory minimums, were not robust enough for type of investment. Ultimately, Insight were not satisfied that a number of key governance and social processes were strong enough to invest and despite engagement with the issuer, did not feel that they were able to improve these sufficiently. As such, Insight did not invest in the deal.

TwentyFour AM (asset backed securities)

37. **Together (specialist UK lender)** - Together is a regular issuer in ABS and the high yield market and TwentyFour has exposure across public and private investments. TwentyFour targeted the company as part of their Carbon Emissions Engagement Policy as the investment manager felt that Together has been slow to adopt ESG data collection, something made more difficult given a manual approach to underwriting. TwentyFour want to work with them over the long term to ensure that they can provide the data TwentyFour needs to assess them fully, including the carbon footprints of their deals. The ABS team hold monthly calls with Together's treasury team providing two-way dialogue on lending, capital markets and opportunities. Through TwentyFour's recent engagements, the investment manager helped identify investor requirements such as energy performance certificates (EPC) and CO2 emissions data which TwentyFour want included in their deal information. Significant progress was made during Quarter 2 of 2021 through data capture and third-party agents and their latest residential mortgage-backed securities (RMBS) deal issued in September 2021, Together 2021-ST1, had over two-thirds of the data the investment manager requested, including property level carbon estimates which is a significant improvement.

38. **Intermediate Capital Group (ICG)** – collateralised loan obligation (CLO) manager - Intermediate Capital Group is a global alternative asset manager with CLOs under management in Europe and North America. They have recently refinanced the European CLO SPAUL 5, and the equity investor pushed through some changes to the reinvestment criteria that have a negative credit impact for mezzanine investors such as TwentyFour AM. This deal, originally priced in 2014, uses some of the earlier CLO documentations which allowed these changes to be made with consent from only the senior noteholders. TwentyFour had discussions with other investors and the co-heads of credit at ICG and expressed the investment manager's concerns on this behaviour. ICG acknowledged the effect this has had on their reputation, and agreed that going forward, CLO documentation should require such changes to be voted through by all rated noteholders instead of AAA investors only. TwentyFour adjusted the ESG score on both the manager and the deal and have not invested in the CLO platform since.

Voting highlights

39. In order for the RI Sub-Committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights for the period July to December 2021, as well as Dodge & Cox's voting highlights for the period July 2020 to December 2021, both of which are contained in Appendix 1. The highlight report does not attempt to quantify the number of votes cast by the Fund's investment managers (which is significant) but

focuses on providing examples of the types of issues where investment managers have voted against company management, resolutions of fellow shareholders, or on sensitive or topical issues.

40. The majority of votes cast against company management by the Fund's investment managers cover the following reasons:

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

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

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

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently

Company	Resolution	Baillie Gifford	UBS-AM
Tesla inc	Management - Eliminate Supermajority Vote Requirements	Against – Baillie Gifford opposed a management resolution to eliminate supermajority voting requirements from the company's bylaws and to adopt a simple majority voting standard, in line with management's recommendation. The company believe this governance provision is still relevant protection for them to	For - Approval of this proposal would enable shareholders to have a more meaningful voice in various governance matters that impact their rights. The reduction in the voting requirement from two thirds of outstanding shares to a simple majority would be a step in a positive direction. Tesla does not

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	**Resolution**	**Baillie Gifford**	**UBS-AM**
		allow them to remain focussed on the long-term success of the business.	have a controlling shareholder and therefore there were no concerns in regard to overall influence.
Naspers Ltd	Management – share re-purchase	For - Naspers has a very healthy balance sheet (the business is net cash) but is highly targeted in its capital allocation, so the deployment of some capital to repurchase shares is regarded as prudent	Against – UBS-AM will not support share issue authorities when the information available is not sufficient to make an informed assessment of the proposed authority.

Climate Change Impact Assessments

43. 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.

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

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

Acadian (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Caseys General Stores	Appoint KPMG LLP as Auditors	Against	A vote against is warranted, since the auditor tenure exceeds 10 years.
EBOS Group Ltd	Elect Directors	Against	A vote AGAINST is warranted, since the nominee is a non-independent and less than one half of the Board are independent non-executive directors.
EBOS Group Ltd	Approve the Increase in Maximum Aggregate Remuneration of Non-Executive Directors	Against	A vote AGAINST this resolution is warranted. The proposed fee pool increase is excessive and the proposed increases in individual fees also appear to be excessive compared with market capitalisation peers. Concerns are highlighted that the level of Chair and Non-Executive Director (NED) fees are higher than New Zealand market capitalization peers. The proposed increases in NED fees would further contribute to put NED fees at this company above market capitalization peers.
Oracle Corporation	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	A vote AGAINST this proposal is warranted. The compensation committee demonstrated poor responsiveness to last year's low say-on-pay vote, which has received low support for several years. While the company has provided disclosure surrounding shareholders' concerns and the board's contemplation of such concerns, the company extended the performance period of large outstanding front-loaded awards. This is especially concerning as the board previously made a commitment to maintain the existing terms of the outstanding awards, as disclosed in the prior year's proxy. In addition to contradicting a prior commitment, the act of modifying previously granted awards is generally considered problematic by many investors, and such concerns are exacerbated given the magnitude of these front-loaded awards. Further, there are ongoing concerns with the use of a discretionary bonus structure for one Non-Executive Officer and entirely time-vesting equity awards for certain Non-Executive Officers.

Stock	Proposal	Vote	Rationale
Oracle Corporation	Shareholders: report on racial equity audit	For	A vote FOR this resolution is warranted, as an independent racial audit would help shareholders better assess how Oracle is managing and overseeing risks related to the use of its facial recognition technology, particularly given growing privacy, civil rights and racial bias concerns associated with the use of the technology.
Microsoft Corporation	Report on Effectiveness of Workplace Sexual Harassment Policies	For	A shareholder resolution: A vote FOR this proposal is warranted as the company faces potential controversies related to workplace sexual harassment and gender discrimination. Additional information on the company's sexual harassment policies and the implementation of these policies would help shareholders better assess how the company is addressing such risks.
Microsoft Corporation	Report on Lobbying Activities Alignment with Company Policies	For	A shareholder resolution: A vote FOR this proposal is warranted, as a report on the congruency of the company's public position with its and its political partners lobbying positions would provide shareholders needed information about reputational risks that may arise from publicity around perceived inconsistencies
Cisco Systems Inc	Amend Proxy Access Right	For	A shareholder resolution: A vote FOR this proposal is warranted as it would enhance the company's proxy access right for shareholders while maintaining safeguards in the nomination process.
Sysco Corporation	Report on GHG Emissions Reduction Targets	For	A shareholder resolution with recommendation to vote against by Management.

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

Stock	Proposal	Vote	Rationale
Alibaba	Elect director	For	ACCESS guidelines recommend Baillie Gifford opposes the election of an executive director where there is no senior independent director. Baillie Gifford were comfortable with this director candidate and therefore supported.
Alibaba	Appoint/pay auditors	For	ACCESS guidelines recommended opposing as the tenure of the audit firm was over ten years. Baillie Gifford believe auditor tenure is an important issue however do not require a change in auditor after ten years. Baillie Gifford instead focuses on if the company has a process in place to tender for a new auditor over a suitable timeframe.
Tesla inc	Shareholder Resolution - Social	Against	Baillie Gifford opposed a shareholder resolution requesting a report on the company's approach to human rights. Baillie Gifford thinks Tesla's current policies and practices are reasonable and improving, making this proposal unnecessary.

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

Stock	Proposal	Vote	Rationale
Abiomed	Remuneration - Say on Pay	Against	Baillie Gifford opposed executive compensation due to concerns with one-off equity awards granted during the year.
Ryanair	Annual report (and all other proposals)	No vote	Baillie Gifford did not vote this meeting as the company has restricted the voting rights of non-EU holders of Ordinary shares and American Depository Receipts post-Brexit.
Naspers	Elect committee member	For	ACCESS guidelines recommend opposing the election of a non-independent director on the Audit Committee. Baillie Gifford are comfortable with the composition of the board and therefore supported.
BHP Group plc	Climate related	Against	Baillie Gifford opposed the company's Climate Transition Action Plan. Whilst Baillie Gifford believes that the company has made good progress with their approach to climate and climate-related goals, Baillie Gifford are concerned that their targets miss out a significant proportion of their emissions and believe they need to be more ambitious in their target setting.
Tesla inc	Shareholder Resolution - Social	For	Baillie Gifford supported a shareholder resolution requesting a report on the company's use of arbitration to resolve employee disputes. Baillie Gifford thinks additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.

Dodge & Cox – Global Stock Fund (global equities)

Stock	Proposal	Vote	Rationale
Bookings Holdings	Shareholder - Annual investor advisory vote on climate plan	Abstain	This was a new proposal in the industry (say on climate). Dodge & Cox abstained from all of these proposals during the 2021 proxy season where an abstain vote was permitted. Dodge & Cox does not believe that it is typically within the purview of a shareholder to vote on strategy with the exception of a few specific situations (e.g. mergers). Our intent during the 2021 season was to see how the industry evolved on this subject and gather more data. We did not want to opine on climate strategy without being as prepared as possible and did not feel we were in a position to issue a direct vote last year. Going forward, Dodge & Cox plans on reviewing all say on climate proposals during the 2022 proxy season on a case-by-case basis and will support those proposals we deem material.
Charter Communications Inc	Shareholders – Report on greenhouse gas emissions disclosure	Abstain	This was a new proposal in the industry (say on climate). Dodge & Cox abstained from all of these proposals during the 2021 proxy season where an abstain vote was permitted. Dodge & Cox does not believe that a it is typically within the purview of a shareholder to vote on strategy with the exception of a few specific situations (e.g. mergers). Our intent during the 2021 season was to see how the industry evolved on this subject and gather more data. We did not want to opine on climate strategy without being as prepared as possible and did not feel we were in a position to issue a direct vote last year. Going forward, Dodge & Cox plans on reviewing all say on climate proposals during the 2022 proxy season on a case-by-case basis and will support those proposals we deem material.
Hang Lung	Mgt – Issuance/Re-issuance of shares/equity	For	This vote was In line with D&C proxy voting policy – we did not view this as overly dilutive
Prosus	Mgt – Executive remuneration	For	This vote was In line with D&C proxy voting policy – when working with our analyst on this meeting it was decided to support the remuneration policy based on our holistic analysis of the company, performance and pay packages.

UBS-AM – passive equities

Stock	Proposal	Vote	Rationale
Marvell Technology Inc	Management - Advisory Vote to Ratify Named Executive Officers' Compensation	Against	The Company has not included a clawback provision within the remuneration scheme, contrary to good practice for this market.
Lenovo Group Ltd	Management – elect directors	Against	The nominee holds a significant number of positions on the boards of listed companies, raising concerns over their ability to commit sufficient time to the role.
Speedy Hire plc	Management - authorise Issue of Equity	Against	UBS-AM will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders
Oxford Instruments plc	Management – elect director	Against	UBS-AM will not support the election of the Chair of the Nomination Committee where the gender balance on the Board is not considered to be in line with our expectation for this market.
AGL Energy Ltd	Shareholders - Approve Paris Goals and Targets	For	UBS-AM supports proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.
Worthington Industries, Inc.	Shareholders – Report on climate policy	For	UBS-AM supports proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	4 March 2022
Title:	Scheme Member Communication
Report From:	*Director of Corporate Operations*

Contact name: Andrew Boutflower

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

Purpose of this Report

1. The purpose of this report is to update the sub-committee on communication to and from scheme members since its last meeting in September 2021.

Recommendations

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

Executive Summary

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

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

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

4. Since the sub-committee’s last meeting in September 2021 the Pension Fund has received two deputations to the Pension Fund Panel and Board and received a variety of correspondence in relation to ESG investment issues, in particular Climate Change and investments related to Israel.

5. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to Climate Change, the

level of correspondence to date remains low (16 received in the last six months) compared with the overall 183,000 scheme members.

Deputations

6. In the last 6 months deputations have been received from representatives of the Dirty Money Campaign at each of the two Pension Fund Panel and Board's meetings. The deputations have repeated the calls on the Pension Fund to take a number of actions, including to manage the Fund's investments in line with the Paris Agreement and a maximum 1.5 degree climate increase scenario and asking all members of the ACCESS pool to become members of the Net Zero Asset Owners Alliance and Institutional Investments Group on Climate Change.

Other correspondence

Occupied Palestinian Territory

7. In November 2021 Cllr Kemp-Gee received a letter from the UN's Special Rapporteur on the situation of human rights in the Palestinian territory. The letter called on all LGPS funds to divest holdings in any of the companies that are listed by the UN as involved in specified activities related to the Israeli settlements in the Occupied Palestinian Territory and ensure that holdings in companies in high-risk, conflict-affected areas (wherever they may be in the world) are a priority for LGPS's ESG strategy.

8. As the Special Rapporteur's letter was sent to all LGPS funds, the matter has been referred to the Scheme Advisory Board to respond on behalf of the LGPS. Once their response has been sent, Hampshire will consider if any follow-up is required. In the meantime, the Pension Fund has continued to ensure its investment managers are aware of the companies on the UN's list and discussed the individual circumstance of any companies on the list where they are held in Hampshire portfolios.

9. There has also been ongoing correspondence from one member of the Pension Fund on this topic.

Climate Change

10. There have also been eight pieces of correspondence from scheme members, another four based on a template email from the *Make My Money Matter* campaign and one from an employer in relation to the risk of Climate Change and encouraging the Pension Fund to disinvest from fossil fuel companies. A number of these emails were based on scheme members

following up on the topics discussed at the COP26 conference in Glasgow in November 2021.

11. An additional email was received based on a template from the campaign *Feedback* calling on the Pension Fund to disinvest from ‘big livestock’ due to its impact on climate change.

Climate Change Impact Assessments

12. 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.

13. 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).

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

REQUIRED CORPORATE 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.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	4 March 2022
Title:	UK Stewardship Code and Taskforce on Climate Related Financial Disclosure (TCFD)
Report From:	*Director of Corporate Operations*

Contact name: Andrew Boutflower

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

Purpose of this Report

1. The purpose of this report is to introduce draft updates to the Pension Fund's UK Stewardship Code report and TCFD report for 2022.

Recommendations

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

Executive Summary

3. The UK Stewardship Code was revised in 2020, with investors and asset managers invited to report how they meet the new 12 principles of the Code in 2021. Hampshire was very pleased to have been one of only six LGPS funds accepted as a signatory to the new Code. Asset managers can also apply to be signatories of the Code, and four of the Fund's 11 investment managers (abrdn, Baillie Gifford, Twenty-four Asset Management and UBS) are also signatories.

4. The Financial Stability Board (established in 2009 following the G20 summit) created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. 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.

5. In combination, Hampshire's UK Stewardship Code and TCFD reports provide the fullest account of the Pension Fund's responsible investment activities, measured against these important external standards.

UK Stewardship Code report

6. The revised 2020 version of the Code included 12 principles which investors must demonstrate that they meet. The principles are divided into four categories;
   - purpose and governance,
   - investment approach,
   - engagement, and
   - exercising rights and responsibilities.

7. In notifying investors that they had been accepted as signatories of the Code, 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 addresses this feedback by including:
   - An overview of the skills and experience held internally (and externally) by the Pension Fund and how diversity is encouraged (Principle 2).
   - A fuller explanation of how market-wide and systemic risks are identified and an assessment of the effectiveness in the context of the wider market. Also now included is the alignment of investments based on the risks identified and an assessment of effectiveness in managing market wide and systemic risks (Principle 4).
   - Updated engagement examples (Principles 9 to 11) that were praised in Hampshire's original submission, with additional clarity on where these relate to investments in the ACCESS pool and coverage of a range of asset classes.

TCFD report

8. Hampshire's TCFD report will been brought up to date with the Fund's current responsible investment activities, including:
   - The Pension Fund's first use of climate change scenario analysis (the Principles for Responsible Investment – PRI's *Inevitable Policy Response*) with its investment managers.

- The progress in making changes to the Fund's investment portfolios to reduce the carbon footprint of investments; of the Fund's eight portfolios where carbon data can be reported, six either already have very low emissions or the Pension Fund Panel and Board have agreed a limit to cap emissions.
- The Fund's latest carbon footprint data once this is finalised.

Climate Change Impact Assessments

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

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11. This paper demonstrates how the Pension Fund is measuring and reducing its carbon footprint – documented in its TCFD report, and its ongoing actions in engaging with the companies invests in to promote the transition to a low carbon economy - covered in its UK Stewardship Code report.

REQUIRED CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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2. Equalities Impact Assessment:

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Hampshire Pension Fund Statement of compliance with the UK Stewardship Code 2020

Purpose and Governance

Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.

Context

The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and its mission is to provide an efficient and effective pension scheme for all employees and pensioners of all eligible employers in Hampshire, in accordance with the requirements of the legislation for the LGPS. There were approximately 178,000 members from over 340 employer bodies in the scheme at 31 March 2020.

The Pension Fund has defined the following investment beliefs:

Investment belief	Reasons why important
Clear and well-defined objectives are essential to achieve future success	To provide focus in achieving the aims of generating sufficient returns, understanding potential risks and ensuring sufficient liquidity to pay benefits to members
Strategic asset allocation is a key determinant of risk and return	An appropriate strategy is a key driver to future success and typically even more important than manager or stock selection
Funding and investment strategy are linked	Funding feeds into investment strategy decisions, including assessing what returns are required and by when
Long term investing provides opportunities for enhancing returns	The Pension Fund is less constrained by liquidity requirements and can better withstand short term price volatility, with the ability to tolerate periods of active manager underperformance when the manager's style is out of favour with the market.
The Panel and Board will take an appropriate level of risk[1]	There is a need to take risk to ensure the sustainability of the Fund whilst also continuing to be affordable to employers and members. However the level and type of risk must be aligned with long term objectives.

[1] The Panel and Board is responsible for the governance of the Pension Fund and its investments

Equities are expected to generate superior long-term returns	The Pension Fund will maintain a significant allocation to equities in order to support the affordability of contributions.
Government bonds provide liquidity and a degree of liability matching	These assets reduce the Pension Fund's funding risks and also reduce liquidity risk in time of market stress.
Alternative investments provide diversification	Diversification across asset classes can help to reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics.
Fees and costs matter	This is about recognising the need to get value for money through minimising the negative impact of fees and costs whilst being willing to pay higher fees to access strategic opportunities or to achieve better or more consistent returns.
Market inefficiencies will provide opportunities to add value over time	Allowing specialist external investment managers the flexibility to take allocation decisions to take advantage of market opportunities.
Active management can add value	The selective use of active managers to target higher returns net of fees, using careful selection and monitoring of managers to minimise the additional risk.
Passive management has a role to play in the Fund's structure	Combining low cost passively managed investments alongside active management can have cost benefits and reduce relative volatility
Responsible Investment (RI) is important to the Panel and Board and can have a material impact on the long-term performance of its investments	Environmental Social and Governance (ESG) issues can impact returns meaning the Panel and Board needs to be aware of and monitor financially material ESG-related risks.

These beliefs are fundamental to the Pension Fund's investment strategy, as set out in its Investment Strategy Statement.

Activity

The Pension Fund Panel and Board holds four formal meetings per year in addition to receiving briefings from each of its appointed investment managers at least once per year. The Panel and Board has also constituted an RI sub-committee, which meets twice per year to provide greater capacity for the consideration of ESG issues and to enable additional scrutiny of investment managers.

Outcome

The Pension Fund's investment beliefs were key to the basis of the Fund's RI policy which was significantly revised in 2019. Since the redrafting of the policy the Pension Fund has seen an increase in the level of interest in several aspects of RI, in particular Climate Change. The revised policy has enabled the Pension Fund to articulate its position on RI more clearly and thoroughly when responding to its scheme members.

Whilst some of its interactions with a small number of scheme members have highlighted that the Pension Fund's RI activities have not gone as far as these members would like, particularly in relation to disinvesting from companies involved with producing fossil fuels. The Pension Fund Panel and Board 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 but believes that disinvesting from fossil fuel companies at the current time is not the most appropriate action to transition to a low carbon economy. The Pension Fund has now published 3 years' worth of carbon footprint data for its investments, which shows a reduction since the original benchmark, following its five separate decisions to change the investment strategies or guidelines to reduce and limit the carbon output of five of its active and passive investment portfolios.

Principle 2 – Signatories' governance, resources and incentives support stewardship

Activity

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). The governance and management of the Fund is the responsibility of the Pension Fund Panel and Board. The Panel and Board oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. This includes investment managers appointed through the ACCESS pool. The ACCESS pool comprises 11 LGPS local government administering authorities and was established in response to the UK government issuing its LGPS: Investment Reform Criteria and Guidance (2015). Through the Panel and Board, its RI sub-committee and the Deputy Chief Executive/Director of Corporate Resources and her officers, there is sufficient resource and capacity to monitor and support stewardship activities.

To ensure that the members of the Pension Fund Panel and Board have the required knowledge and skills to fulfil their role, they undertake an annual training programme based on requirements identified from CIPFA's Knowledge and Skills framework. This includes training on RI; the Panel and Board have received training from the UN PRI, specialist RI consultants from MJ Hudson Spring and an officer from the Local Government Association.

The Pension Fund Panel and Board approves a budget each year that provides the appropriate resources; the officers responsible for the functions of the Pension Fund and means to commission external specialist support, for the management of the Fund, including its responsible investment activities. The Pension Fund's officers participate in continuous professional development (CPD) as part of the County Council's staff performance management process. The Pension Fund's officers take advantage of training opportunities provided by investment managers and other providers, as well as the training provided to the Pension Fund Panel and Board, the content of each includes a significant amount of RI material.

Outcome

Routine written reports from investment managers on voting and engagement activity are received by the Pension Fund's officers on a regular basis. In addition, each appointed investment manager reports annually to the Pension Fund Panel and Board including on their activity in these areas. At each of their meetings the RI sub-committee receive a report on the investment managers' engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions.

To supplement its internal resources the Pension Fund has commissioned external support from the specialist RI consultants MJ Hudson Spring to report on the Fund's external investment managers' RI capabilities and the ESG risk and exposure of each of the Pension Fund's investment portfolios. This report has assisted in the monitoring and scrutiny of the Fund's investment managers stewardship activities on behalf of the Pension Fund.

The County Council, responsible for the administration of the Pension Fund, has a corporate commitment to equality and diversity, and works to continue to build a workforce which reflects the diversity of the local community, encouraging applications from people of all ages, genders, sexual orientations and ethnic backgrounds. This is reflected in the team that delivers services for the Pension Fund.

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Activity

The Pension Fund's approach to conflicts of interest in relation to stewardship is part of its RI policy and is as follows.

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. Third party advisors and investment managers may perform roles other than which they are employed for and to that extent conflicts may arise. The Pension Fund expects the investment managers and advisors it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available on their respective websites. These are discussed prior to the appointment of a manager/advisor and reviewed as part of the standard monitoring process.

Pension Fund Panel and Board members may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential stewardship of any investment made by the Pension Fund that could be a direct benefit to wider Council policy. To manage and mitigate these potential conflicts Pension Fund Panel and Board have agreed a Conflicts of Interest Policy and are required to complete a conflicts of interests declaration for the Pension Fund year and are recorded in the Fund's Conflicts register.

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 Council members are maintained and monitored on a Register of Member Interests. These are published on the Council's website under each member's name and updated on a regular basis.

Outcome

Following the recommendation of ths Scheme Advisory Board's (SAB) Good Governance review, the Pension Fund Panel and Board have agreed a specific Conflicts of Interest Policy for the Pension Fund. The Pension Fund's approach to managing conflicts of interest has operated as intended. For example, when appropriate the Pension Fund has noted before considering the following relevant issues that its independent advisor is a member of the board of Aberdeen Standard Fund Managers and one of the co-opted members of the Panel and Board is a member of the Trade Union UNISON. There have been no additional conflicts recorded as part of the completion of conflicts of interest declarations by the Pension Fund Panel and Board.

Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Risk is managed by setting investment beliefs, funding and investment objectives that are incorporated into the Fund's asset allocation it Investment Strategy Statement (ISS). The ISS is reviewed annually and a strategic review is undertaken after each triennial actuarial valuation of the Pension Fund.

The Pension Fund conducts a full risk assessment of its activities which is reviewed twice a year by the Pension Fund Panel and Board,as part of the Fund's Annual Report and in setting its Business Plan. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. Risks are identified with the input of the Pension Fund's actuary and investment consultant, as well as the Pension Fund's officers, who stay abreast of current events and potential risks through discussions with investment managers and peers, and seminars and conferences they attend as part of their ongoing professional develoment. In addition, the Pension Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns.

The Pension Fund's foremost mitigation against market-wide and systemic risk is a well diversified investment strategy. At each of its meeting the Panel and Board receives a report on the allocation of investments and can take action to address any variances. Therefore, it is important the Pension Fund Panel and Board receives the appropriate training and commissions advice to be able to select from and monitor a wide variety of investments. The Pension Fund commissions investment consultancy advice for its strategic asset allocation and as a point of escalation if it has any concern over the performance of an asset class or one of its investment managers.

Over the last two years significant attention has been given to monitoring the ongoing risk of market volatility caused by COVID-19. Although equity markets have recovered a lot of the initial losses. The Fund's diversified portfolio helped cushion the initial impact of the pandemic in March 2019 and the Fund's valuation and funding level have both since risen above their pre-pandemic levels. The Pension Fund Panel and Board and Fund officers has focused on scrutinising the Fund's investment managers analysis of the risks of the impact of Covid, for example in reviewing the impact on the collection of rents of the Pension Fund's property assets.

Outcome

The following summary takes key risks from the Pension Fund's risk register covering market wide and systemic risks and the actions that have been taken in the last year to manage these risks:

- Employer risks – the covenant risk of the employers in the Pension Fund has continued to be monitored by the Pension Fund and its actuary, in the context of the Fund's Funding Strategy Statement that seeks to appropriately balance the risk of an employers failure and inability to continue to pay contributions with the rate of contributions they are required to pay. The Fund's officers and the actuary have responded to relevant market developments such as the impact of Covid and the extent that this has damaged the convenient of any employers in the Fund and changes in the UK gilt yields that have impacted the affordability of contributions for higher risk employers.
- Investment risks – the Pension Fund's officers continue to monitor the value of the Fund's investments on a monthly basis and these are reported to each quarterly meeting of the Pension Fund Panel and Board. Reports focus on both the investment performance of the Fund's investment managers and the implementation against the Fund's asset allocation. The Pension Fund's officers and Panel and Board have continued to engage with its investment managers, including through the ACCESS pool where relevant, to challenge and scrutinise investment managers. Discussions with investment managers focus on market wide and systemic risks such as inflation, unemployment, interest rates, government intervention in markets and other drivers of market sentiment. In the last year this engagement has heavily focused on the ongoing impact of the Covid-19 pandemic. In general the value of the Fund's assets have benefited from the recovery of asset values in the last year, which has lead to a significant rise in the overall value of the Fund.
- Liability and funding risks – the Pension Fund receives quarterly updates from its actuary on interim funding levels and on an exception basis can take action to change the contributions required from employers or the Fund's investment strategy. As described above in the last year given the improvements in the value of Fund's investments there has been a similar improvement in the funding level.
- Regulatory and compliance risks – the Pension Fund's officers and advisors have continued to monitor any developments from Government or regulators and will respond to any consultation when required. A number of pending developments are expected from Government but yet to received including; the McCloud remedy for age discrimination in previous pensions benefit reforms, implementation of the Good Governance outcomes from the Scheme Advisory Board review and the adoption of the Taskforce for Climate-related Financial Disclosure (TCFD) recommendations. Although the Government is yet make announcements in these areas, the Fund has sought to be proactive in undertaking the work adopt the outcomes of Good Governance and TCFD.
- ESG risk – a significant amount of the Pension Fund's attention has focused on the management of ESG risk, in particular the risk of climate change. Monitoring is undertaken through the regular engagement with the Fund's investment managers and is reported in a number of ways, including a

stewardship report that is made to each meeting of the Fund's RI sub-committee and an annual RI update made to the Fund's scheme members. In the last year the Pension Fund has continued working on the reporting in line with the TCFD recommendations, extending the investments that it is able to report carbon emissions on and then making further agreements with its investment managers on limits or caps to the carbon emissions in investment portfolios. In addition the Fund has undertaken a scenario analysis of the impact of climate change, based on the PRI's *inevitable policy response* scenario, which highlighted the Fund's investment managers varying ability to consider and answer this question. Finally the Pension Fund has commissioned GRESB benchmarking to measure the management of ESG for its direct property portfolio, which will be used on an ongoing basis prioritise investment in the property portfolio for the greatest ESG benefit.

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

The Pension Fund began a significant review of its RI policy in 2018 forming a working group of the Panel and Board that took advice from Dr Rupert Younger - Chair of Oxford University's SRI Committee. Following the agreement of the updated policy in 2019 and further external review was carried out in 2020 as part of the commissioning of the specialist external RI consultant MJ Hudson. Recommendations from MJ Hudson were accepted to make the RI policy more comprehensive and readable.

As already reported the Pension Fund's RI sub-committee receive a report to each meeting on the investment manager's engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report is part of the sub-committee's published agenda and demonstrates the assurance that the Pension Fund is seeking for the stewardship activities undertaken on its behalf by the Fund's investment managers.

Outcome

The 2019 review of the Pension Fund's RI policy began an emphasis from the Fund on engaging with scheme members and employers on RI. The RI sub-committee created in 2019 has specific actions in its Terms of Reference:

- to regularly review 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;
- to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;

- to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.
- to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders.

The RI sub-committee’s first Annual Report on RI was published in April 2020. Following feedback received, for the following years’ reports the Pension Fund commissioned the Council’s Communication and Marketing team to assist with the publication and improve the format and clarity of the report to make it more accessible to the Pension Fund’s scheme members.

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). It is a defined benefit scheme responsible for the pensions of over 178,000 scheme members across over 340 scheme employer bodies. Of the members, over 43,000 are currently in receipt of their pensions and the average pension paid in the 2019/20 year was £5,038. Of the members not yet in receipt of their pension, over 58,000 are active members with a further 75,000 deferred members. The average age of all scheme members as at the last triennial actuarial valuation was 51.8 years.

The majority of the employer bodies whose staff are members of the Pension Fund have strong covenants due to their status as public sector bodies. This means that the Pension Fund is able to take a long-term view when making investment decisions, helping the Pension Fund to achieve its investment aims. These aims include managing employers’ liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in primary contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

Following a re-drafting of the RI policy in 2019 the Pension Fund then undertook extensive consultation on the new draft policy by:

- creating a specific Responsible Investment section on the Pension Fund’s website where the new draft policy was published, with an explanatory note;
- including details of the consultation in the employers’ newsletter requesting that employers publicise this to their members;
- sending an email to a sample of 500 deferred scheme members;.
- inclusion details of the consultation in the newsletter that accompanies the pensioners’ annual payslip;

- writing to Hampshire's Director of Public Health;
- writing to the Pension Fund's investment managers to ask for their views on the draft policy;
- sharing the draft policy with the other members of the ACCESS pool;

Following the agreement of the revised RI policy in 2019 the Pension Fund has maintained a greater focus on engagement with its scheme members on RI issues. The Pension Fund has maintained a specific RI webpage that it keeps up to date with relevant information to explain the Pension Fund's approach to RI and provide details for stakeholders, including publishing the full voting records of the Fund's equity investment managers. The Pension Fund is invested in many companies through its investment managers meaning that voting records may not feel sufficiently accessible to some scheme members and voting and stewardship examples are therefore highlighted in the regular reports to the RI sub-committee. The Fund also has a specific RI email address for scheme members to use to share their views on any aspect of RI. These contact details are published on the Fund's website and are also shared with scheme members at other opportunities, such as in the publication of the annual RI update report.

The Pension Fund's RI policy clearly states that the Panel and Board may also consider disinvestment from a particular stock, the exclusion of a particular type of stock or investment in specific 'social' investments where, based on an evaluation of ESG factors, it believes that the decision would be supported by a significant majority of scheme members and employers; the Panel and Board may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

<u>Outcome</u>

The Pension Fund reports the allocation, investment value and performance in its Annual Report as at 31 March 2021 for scheme members, which is summarised below:

Asset class	Regional exposure	Actual allocation	Strategic allocation
Growth			
Active Equities*	Global	30.9%	25.0%
Passive Equities*	Global	15.9%	11.0%
Passive Equities*	UK	2.7%	0.0%
Private Equity	Global	4.9%	5.0%
		54.5%	41.0%
Income			
Multi-asset Credit	Global	9.4%	10.0%
Asset-backed Securities	Global	6.2%	2.0%
Private Debt	Global	2.4%	5.0%
Property	UK	6.0%	10.0%
Infrastructure	Global	3.0%	10.0%
		27.1%	37.0%
Protection			
Index-linked Gilts*	UK	17.4%	22.0%
Cash	UK	1.1%	0.0%
		18.5%	22.0%
Total		100.0%	100.0%

* invested via the ACCESS pool, which in total accounted for 67% of the Fund's investments

The Pension Fund records the engagement it receives from scheme members on RI matters. In meeting the RI sub-committee's action 'to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate' the communication that has been received is reported to the RI sub-committee. The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered.

The Pension Fund Panel and Board has agreed that it wants to increase the level of engagement that it has with scheme members further still and has agreed an additional budget of £20,000 for additional communications and is in the process of developing its communications strategy. In the last year the Pension Fund has reviewed its website and made the information on RI more prominent and accessible within it. The coverage of RI in its Annual Report for 2020/21 was also expanded as another means to publicise its activities to scheme members.

Since the Pension Fund's updated RI policy in 2019 the Pension Fund Panel and Board and RI sub-committee has received several deputations, prior to which it had not received any, all about disinvesting from fossil fuels. Although the Pension Fund has not gone as far as the suggestions put forward in these deputations, the Fund has taken several actions that address the issues expressed:

- The Pension Fund Panel and Board has made three separate decisions to change or set limits for three of its investment portfolios to reduce the carbon footprint of these portfolios.
- The Pension Fund publicly reports on the carbon footprint of its investments which show a reduction between the first and second year of reporting (and is aiming to benchmark itself in this regard against other LGPS funds where this data is available)
- The Fund has publicly reported against the Taskforce for Climate-related Financial Disclosure (TCFD) criteria.

Investment Approach

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

As set out in its RI policy 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.

Activity

The Pension Fund's RI policy sets out by asset class how it expects its investment managers to integrate RI and stewardship into their investment decisions as follows:

Passive investment managers

The Pension Fund accepts that in making investments through an index, passive managers are unable to actively take ESG factors into account in deciding to hold an investment. However, the Pension Fund does expect its passive investment managers to act in its best interests to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the Pension Fund 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.

Quantitative investment managers

The Pension Fund will 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. Similarly, 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 Pension Fund delegates responsibility for making individual investment decisions (non passive) to its active investment managers. In delivering their service to the Pension Fund, the Fund requires 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 Pension Fund 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 requires that its investment managers to 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 it has committed its investment it cannot control the 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 to 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.

The Pension Fund tendered for a number of its investment managers from 2015 to 2019. These tenders considered various aspects of prospective investment managers capacity and ability to integrate ESG factors into their investment decisions and the commitment to RI through adherence to standards such as the UK Stewardship Code and UNPRI. The Pension Fund has only tendered for one new investment manager in the last 2 years. This procurement was for an investment manager for the Pension Fund's UK commercial property portfolio and external consultant advice was used to integrate the assessment of the management of ESG into the criteria for the selection of the investment manager and the appointed manager is now required to report against the GRESB benchmarking factors. This is particularly important given the relatively long term and illiquid nature of directly held property assets and reflects the need to consider ESG issues not just over the shorter term.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Focus on how the Fund's investment managers have incorporated ESG factors gathered through their stewardship activities, into investment decisions, is a significant part of the monitoring and discussion with the Fund's investment managers. Examples include:

- Barings (multi-asset credit) was approached in September 2021 to look at a new transaction for a healthcare company providing rehabilitation and mental health services. Barings' due diligence process had highlighted previous care quality issues at certain health facilities within the group. As such, the company had been rated poorly in the social category under Barings' internal ESG Ratings criteria. During the debt syndication process, the company intended to include sustainability KPIs into its finance terms in order to reduce interest costs on achievement of targets including reduced carbon emissions at facilities. Barings actively engaged with arrangers, senior management and the financial sponsor to push for the addition of KPIs linked to quality of patient care metrics given this was viewed as a key sustainability risk area. Ultimately, Barings was successful in achieving the addition of the requirement for independent third-party quality ratings on medical facilities to meet certain predetermined thresholds. A failure to meet targets would result in higher interest costs for the company.
- abrdn (private equity) co-investing in companies with strong ESG, for example Dott - a leading European micro-mobility focussed company, providing dockless e-scooters and e-bikes to cities across Europe. It also provides full stack operations, including maintenance, battery charging and swapping, ensuring availability at all times. Dott's mission is to provide a clean, sustainable transport option for all. Dott's operational model gives them control over the full lifecycle of their vehicles to ensure that they reuse, upcycle or recycle 100% of their used vehicles and parts, and can service their fleet with 100% electric vehicles powered by renewable energy. They take their ESG ambitions extremely seriously, putting in a place a public manifesto of goals, creating a Sustainability Committee, and continually tracking and reporting on their performance against the ambitious goals they have in place and against their competitors' performance.
- On behalf of investors in the ACCESS pool including Hampshire, Baillie Gifford have carefully considered an investment in U.K. Capital goods company in relation to its supply chain control and human rights issues. The company specializes in international distribution and services company and supplies a range of consumable products. The company's sustainability report states that 98% of its supply chain is in Asia where it has the largest proportion of supplies situated in countries identified by the Global Slavery index as high-risk for human rights issues. In 2020, the company conducted an audit and undertook remediation efforts to bring 61 suppliers up to required standards and are terminating contracts with 15 suppliers that failed to make progress. In addition to this Baillie Gifford asked the company to detail further its approach to forced labor and how it evaluates suppliers following contract termination. Several engagement activities were escalated and involved follow

up activities following initial lack of communication and action on providing for further detail about the company's approach to forced labour.

- Roundshield (private debt fund) has invested in opportunities with positive ESG credentials such as:
  - the construction of a biogas plant in Scotland, taking waste cheese from a nearby factory to generate energy.
  - financing a renewable energy from solar and wind in Northern Spain which has enabled the business to grow, and
  - taking a stake in a Spanish biofuels production plant

Principle 8 – Signatories monitor and hold to account managers and/or service providers.

Activity

The Pension Fund requires its investment managers to report to them on a quarterly basis and meet with them regularly including presenting to the Pension Fund Panel and Board at least once a year. In addition, the creation of the RI sub-committee gives the elected members responsible for managing the Pension Fund additional capacity for engaging with its investment managers and holding them to account, specifically on RI issues. Should the Pension Fund Panel and Board or the RI sub-committee feel that they have not received satisfactory responses from any of its investment managers, the Committees can invite the investment managers back to allow them the opportunity to present again and answer further questions until acceptable responses are received.

Outcome

As set out in the Pension Fund's RI policy and as above for Principle 7, the Fund sets out specific expectations for how its investment managers manage ESG factors according to the asset class that they manage. To date the Pension Fund has received satisfactory responses from its investment managers to demonstrate they have acted in accordance with the Fund's policy.

In addition, the Pension Fund has commissioned specific RI consultancy advice from MJ Hudson Spring on the capabilities of its investment managers in managing ESG issues and the ESG risks and exposures in each of the Fund's portfolios. This has given the Pension Fund better insight of which investment managers and portfolios they should give additional focus on to support their investment managers and ensure their policy is being adhered to.

As already reported the Pension Fund's RI sub-committee receive a regular stewardship report on the investment managers' engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report demonstrates that the Pension Fund's investment managers have met the Fund's requirement to vote as a shareholder on its behalf and tests that can provide a reasonable rationale for how their votes have been cast if they have not followed the Fund's policy. As shown in the examples in Principle 7 the engagement reports include all of the Fund's investments in different asset classes, not just equities.

Engagement

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

Activity

The Pension Fund's RI policy includes the instruction to its investment managers that they 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.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Pension Fund Panel and Board, RI sub-committee and the Pension Fund's officers. Examples of stewardship activities that have been published and reported to the RI sub-committee are:

- Abrdn (private equity) have leveraged its longstanding relationship with Vespa (a General Partner investing in technology and healthcare companies) and worked with them from a position from not having an RI policy, to implementing a policy, employees undertaking ESG training and implementing an ESG reporting framework in 2021. Hampshire's two co-investments with Vespa are now monitoring Scope 1 and 2 carbon emissions at their main premises and reporting on the gender pay gap and employees earning a living wage.
- On behalf of the ACCESS Pool Baillie Gifford spoke to the chairman of CRH (building materials business) to discuss CRH's corporate governance and approach to sustainability. Two new board appointments incorporated feedback from shareholders, including Baillie Gifford, on adding industry experience to the board. Baillie Gifford have continued their dialogue on the company's efforts to improve efficiency and reduce its carbon emissions. In September, the Global Cement and Concrete Association, of which CRH is a member, announced a joint ambition to achieve carbon neutrality by 2050. Concrete is the world's most widely used material. It is essential to social and economic development and its production is carbon intensive. Accordingly, this ambition is important in addressing effects of climate change. Baillie

Gifford were encouraged to learn that CRH will not count offsets as part of its strategy to reduce its carbon footprint.

- Insight (asset-backed securities) has been working with an originator of UK mortgages and following this engagement they have agreed to adopt a “rebate” mechanism for current and new borrowers that s the energy efficiency rating of their home by at least one notch. Insight and Hampshire believe this type of engagement is directly encouraging individual borrowers to improve the energy efficiency of their homes and directly aid the transition to a lower carbon economy.
- One of Hampshire’s Private Debt funds – CarVal have invested in Intersect Power. CarVal aggressively pursued and approved Intersect’s purchase of 2.4GW of solar panels from a source that did not use materials from the Xinjiang province. At the time of the order, this was one of the largest orders of solar panels globally and CarVal wanted to ensure they were sourced responsibly.
- Alcentra (multi-asset credit) engaged with a global chemical company to better understand their long-term climate strategy and management of hazardous chemicals. Alcentra spoke with the Head of Investor Relations and Group Technology Director, who provided assurance that hazardous chemicals are not a material business for the group. The company has identified their plans to phase out fluorinated chemicals that may be restricted or banned in the future. The company recently announced a number of low-carbon projects in Europe, including green hydrogen and carbon capture storage investments, which will assist in their greenhouse gas emission reduction efforts, with a goal of reaching net zero emissions by 2050. Alcentra will monitor the company’s publication of their interim 2030 reduction targets and progress against these.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.

<u>Activity</u>

As explained above and in the Pension Fund’s RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund’s investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Pension Fund’s behalf.

Furthermore Hampshire is a member of the ACCESS pool, which it uses to access more than two thirds of its investments. The 11 partner funds in ACCESS have collectively pooled £34.5m. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

In addition the Hampshire Pension Fund is open to discussing any other forms of collective action with other investors and where appropriate will discuss with our investment managers how they can co-ordinate their voting activity with other shareholders.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- On behalf of investors in the ACCESS pool including Hampshire, Baillie Gifford have engaged with Rio Tinto (metals and mining company) and third parties on the Juukan Gorge disaster in 2020 and 2021. Following the interim parliamentary inquiry into the incident, Baillie Gifford engaged as part of the Investor Forum and attended the Australasian Centre of Corporate Responsibility's briefing in the fourth quarter of 2020. The inquiry identified failings which led to the destruction of the Juukan Gorge site. Baillie Gifford also spoke with the UK Investor Forum and the Australian Council of Superannuation Investors in the first quarter of 2021. The focus of Baillie Gifford’s stewardship work has been to promote governance practices which support responsible operating behaviour and the creation of long-term stakeholder value.
- One of Hampshire’s private debt investments ICG have been actively participating with other investors in the CDP pilot project for private markets. The purpose of this project is to shift the industry from using proxy emissions data to actual data from portfolio companies to further enhance the data they report. CDP is a global carbon disclosure framework and ICG have helped develop a concise reporting template for private companies. ICG have been actively engaging companies to report their climate data to CDP and a number of portfolio companies have taken part.
- On behalf of ACCESS and other investors, UBS-AM identified Equinor (Norwegian petroleum company) in February 2017 as one of the world's top 100 greenhouse gas emitters and was included in the engagement focus of Climate Action 100+. The company was identified for engagement for concerns over carbon emissions trends, fossil fuel exposure, weak disclosure levels, or the absence of climate change policies and targets. UBS-AM joined the Climate Action 100+ coalition to provide consistent and coherent messaging and committed to leading the Climate Action 100+ coalition for this company. UBS-AM portfolio managers, analysts and SI analysts have been in contact with company representatives, including Board members, in the context of investor and Climate Action 100+ meetings and have established engagement objectives. Equinor has now strongly committed to increase capacity and investments in renewables, hydrogen and CCSU and executive pay will be updated to include new climate targets. The company is gradually

undertaking a climate transition, complementing energy producing portfolios with renewable and other low-carbon energy solutions. It has already become the world's largest offshore wind operator.

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

The Pension Fund expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate up to disinvesting from a position if engagement activities do not produce the desired result. Examples include:

- Barings (multi-asset credit) divested from an Indonesian coal miner after multiple engagements on the environmental risks within its coal business for which they didn't get any positive traction with management around measuring or setting targets for its scope 1,2 or 3 emissions or any clear plan regarding environmental risks.
- Through the ACCESS pool, Hampshire owned a US holdings company in Baillie Gifford's portfolio. In early 2020, Baillie Gifford engaged with the Compensation Committee on the issue of discretionary bonuses that were due to be paid to management, despite triggers from the company's own Long Term Incentive Plan not being met. Nevertheless the company pressed on and so Baillie Gifford voted against both the pay package and the re-lection of the Chair of the Compensation Committee. For Baillie Gifford this became a broader issue, of an organisational culture not aligned to the long-term interests of their clients and was one of the factors taken into account when they decided to sell the holding.
- On behalf of investors in the ACCESS pool including Hampshire, Acadian have engaged with a UK Capital goods company on supply chain control and human rights issues. The company specializes in international distribution and supplies a range of consumable products including food packaging, disposable tableware and catering equipment, cleaning and hygiene supplies, packaging to customer markets including grocery, foodservice, cleaning and hygiene. The company's sustainability report states that 98% of its supply chain is in Asia where it has the largest proportion of supplies situated in

countries identified by the Global Slavery index as high-risk for human rights issues. In 2020, the company conducted an audit and undertook remediation efforts to bring 61 suppliers up to required standards and are terminating contracts with 15 suppliers that failed to make progress. Engagement was escalated by asking the company to detail further its approach to forced labor and how it evaluates suppliers following contract termination.

- On behalf of investors including the ACCESS pool UBS-AM identified Exxon Mobile (oil and gas company) for its lack of commitment to transition away from fossil fuels towards a low-carbon business strategy, and that the track record of the company's management was below industry average. UBS-AM engaged with the company through the Climate Action 100+ investor coalition. UBS-AM set engagement objectives aimed at encouraging the company to develop a stronger sense of direction in terms of greenhouse gas reduction ambitions, the strategic impacts of climate change, and to develop an action plan for transition. At the end of 2020, the company announced greenhouse gas reduction targets to aim at decreasing carbon intensity of its upstream business. However, these targets were limited in scope and were weaker than most of its industry peers. UBS-AM noted that over the course of the engagement, the company was reluctant to address the key question of the changes it needs to make in order to reflect the pressures on its business model from climate change. As a result UBS-AM decided to exclude Exxon Mobile from its Climate Aware strategy, which Hampshire invests in having switched from a traditional passive equity index.

Exercising rights and responsibilities

Principle 12 – Signatories actively exercise their rights and responsibilities.

Context

The Pension Fund's RI policy includes its approach for exercising of rights attached to investments. This include the Fund's belief 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, and that the principles accepted as best practice in the UK may differ globally. 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 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 its policy.

Where investment managers were appointed directly by the Pension Fund to segregated mandates, the Pension Fund expected these managers to vote in line with its own voting policy or explain the rationale for doing otherwise. Similarly, for investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions and ultimately the Panel and Board has the option to disinvest if it is dissatisfied with the manager's decisions.

The Pension Fund allows its investment managers to conduct stock lending and has actively recalled lent stock for voting reasons on multiple occasions when advised by its investment managers.

Activity

The Pension Fund's policy includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible. The full voting record of all of the Fund's investment managers are published on its website Responsible investment | Hampshire County Council (hants.gov.uk).

The voting and engagement report to the RI sub-committee includes rationales provided by the Fund's investment managers for where they have voted against company management or how they have voted on shareholder resolutions. This report is published with the committees agenda, the latest example is published here: tbc

The Pension Fund needs to develop its approach to exercise the rights for its fixed income investments.

Outcome

The RI sub-committee has identified the need to develop the reports that they received on the investment managers’ voting and engagement to include the outcome of the resolutions that have been voted on.

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Introduction

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has been endorsed by over 1,000 companies and financial institutions representing a combined market capitalisation of over US$12 trillion and nearly US$118 trillion assets under management.

The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and did so for the first time in 2021. This report sets out the approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets with updates provided for the last year.

Governance

Recommended Disclosure (a)

Describe the board's oversight of climate-related risks and opportunities.

The Hampshire Pension Fund Panel and Board is responsible for agreeing investment objectives, strategy, structure and for developing and agreeing the Responsible Investment Policy. All of the Hampshire Pension Fund's investments are managed by specialist external investment managers. The Panel and Board receive regular reports from the Fund's investments managers, which includes their management of responsible investment.

To assist with managing the Pension Fund's Responsible Investment policy and monitoring its activities, the Panel and Board has created a specific Responsible Investment (RI) Sub-Committee

In the last year the Hampshire Pension Fund Panel and Board and the RI sub-committee have considered 5 separate reports specifically addressing Climate Change risks. These are summarised as follows:

- March 2021: the Panel and Board agreed and published the Pension Fund's second annual update on Responsible Investment, including carbon footprint analysis of the Fund's listed equities.
- September 2021: a report considered the Fund's investment managers assessment of climate risk based on the UN Principles for Responsible Investment's (PRI) scenario of *an inevitable policy response.*
- September 2021: considering and providing feedback on ACCESS's draft RI policy.
- September 2021: the Panel and Board agreed to change the Fund's passive alternative factor global equity portfolio to a new carbon aware strategy.
- December 2021: the Panel and Board agreed to change one of its multi-asset credit portfolios to impose a limit of having carbon emissions 30% lower than the benchmark.

Recommended Disclosure (b)

Describe management's role in assessing and managing climate related risks and opportunities.

The Director of Corporate Operations is responsible for implementation of the Pension Fund Panel and Board's decisions. Day-to-day implementation of the Pension Fund's Responsible Investment policy is delegated to the external investment managers, who operate under the Pension Fund's policy on Responsible Investment and are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

This is overseen by the Pension Fund's officers with oversight from the Director of Corporate Operations.

An annual carbon footprinting exercise is used to assess both the risks from Climate Change and also areas of opportunity. In addition, the Hampshire Pension Fund has employed a specialist advisor, MJ Hudson Spring, to assess and report on its external investment managers, including the risks and opportunities from the companies invested in, in each portfolio.

The Hampshire Pension Fund is a signatory of the UN PRI and completed its asset owners survey for 2020 including those related to climate-related and will reflect on the results with a view to how it can incorporate the results in its future reporting. The Pension Fund was one of six LGPS funds accepted as signatories to the revised UK Stewardship Code 2020 and the risks and opportunities related to climate are key factors in the Fund's focus on stewardship and company engagement.

Strategy

Recommended Disclosure a)

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

The Hampshire Pension Fund has a global investment strategy widely diversified by geography, asset class, sector and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.

The largest allocation in the Pension Fund's investment strategy is to equities, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate–related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

The Fund also recognises that there is uncertainty over the direction and speed of policy changes in this area.

With respect to short term policy risk the Pension Fund monitors and discusses the status of its property investments with its appointed investment manager and uses the Global Real Estate Sustainability Benchmark (GRESB) annual assessment of its property portfolio to monitor the effectiveness of the management of the sustainability of its property portfolio and where the priorities for improvements are.

With respect to medium and longer term risk, the Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities. As a public sector pension fund, reputational risk is also a particular concern, though not for financial reasons.

Recommended Disclosure b)

Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager appointments.

As confirmed by the Pension Fund's specialist consultants, all but one of the Fund's investment managers are PRI signatories. The Pension Fund strongly encourages managers to become signatories and to adhere to the principles.

The Pension Fund has identified five of its portfolios (two passive global equities, two active global equities and one multi—asset credit) that can be transitioned to lower carbon alternatives without compromising the investment return that the Fund requires to meet its Funding Strategy. The Fund will continue to discuss with its investment managers where there are opportunities to improve environmental outcomes that also correlate with positive investment performance.

Recommended Disclosure c)

Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

The Hampshire Pension Fund believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations.

The Pension Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies, however the Fund has engaged with its investment managers on climate risk scenario analysis, and following taking advice from its specialist external consultant, chose to ask its investment managers to consider the PRI's *Inevitable Policy Response* scenario. The engagement exercise between the Fund's officers and the investment managers was productive and this was given due consideration by the Fund's investment managers.

The Pension Fund received a variety of responses from its investment managers, ranging from those where further work would be required to be able to fully assess the impact, to those that had undertaken detailed modelling in producing their response. Although the responses received have varied and did not produce a conclusive answer to the Fund as a whole, it was informative in highlighting the Pension Fund's investment manager's different abilities to considering scenario analysis.

The Fund continues to encourage greater levels of climate-related disclosures through its discussions with its investment managers and their engagement and voting with the companies they invest in to address this issue. The Fund is well diversified and has allocations to real assets and through its infrastructure portfolio, the renewable energy sector, therefore Climate Change risks should have a relatively limited impact on returns.

Risk Management

Recommended Disclosure a)

Describe the organisation's processes for identifying and assessing climate-related risks.

The Hampshire Pension Fund's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes Climate Change. This means that external investment managers take into account any climate-related risks when making their investment decisions.

The Pension Fund Panel and Board, supported by its independent advisor, the Pension Fund's officers and the consultants they have commissioned, monitor and scrutinise the Fund's investment managers to help ensure that climate risks are being assessed and addressed. The Fund's carbon footprinting is used to inform this process.

Recommended Disclosure b)

Describe the organisation's processes for managing climate related risks.

- **Development of Specific Investment Strategies**

The Pension Fund's allocation to global infrastructure includes 18% of commitments to renewable energy investments, which includes the production of wind, solar and other renewable energy.

- **Formal Advice**

The Hampshire Pension Fund has taken formal advice from specialist responsible investment consultants MJ Hudson Spring, who reviewed the current Responsible Investment Strategy and suggested areas for development, provided training for the Pension Fund Panel and Board, recommended a roadmap of further responsible investment developments and reviewed the Fund's external investment managers' responsible investment approaches. The review of the Fund's investment managers is a key tool for the Pension Fund in analysing the comparative risks and opportunities from Climate Change across it's portfolios, and highlighting areas to focus with the investment managers on.

- **Exercise of Ownership Responsibilities**

Ownership activity relating to Climate Change risk is carried out by the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of Environmental, Social and Governance (ESG) issues into their investment analysis and expected to engage on these issues with the companies in which they invest. Voting activity is published on the Pension Fund's website and a summary of key issues are reported to the Responsible Investment Sub-Committee for the members to include their scrutiny of the Fund's investment managers

Recommended Disclosure c)

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Hampshire Pension Fund's overall approach to risk management is described in its Risk Management Report, which is part of its Annual Report and included in the Fund's website at: https://hants.sharepoint.com/sites/TheF8676/Shared Documents/Forms/AllItems.aspx?id=%2Fsites%2FTheF8676%2FShared Documents%2FHampshire-Pension-Fund-Business-Plan-34pp-FINAL-spreads%2Epdf&parent=%2Fsites%2FTheF8676%2FShared Documents&p=true. Climate Change is addressed as follows.

Risk	Description	Likelihood	Impact	Mitigation
Investment	Environmental, social and governance (ESG) factors including the impact of climate change – that these factors materially reduce long-term returns.	M	H	As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.

The Pension Fund currently reports extensively on environmental, social and governance issues including Climate Change. This includes:

- reports for the Pension Fund Panel and Board and the Responsible Investment Sub-Committee.
- an annual report on Responsible Investment Activity which is considered by the Responsible Investment Sub-Committee, sent to pensioners and included in the Fund's Annual Report.
- a specific page on the Pension Fund's website https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment containing further information.

Metrics and Targets

Recommended Disclosure a)

Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

The Hampshire Pension Fund monitors and publishes the shareholder voting of all its external Investment Managers on issues including Climate Change.

Following the analysis of its responsible investment consultants MJ Hudson Spring, the Pension Fund has a list of the investments it holds which are the highest ESG risks, including the risk of negatively contributing to Climate Change. This list is the basis of discussion with the Fund's external investment managers to ensure that they are aware of where their greatest exposures lie.

Recommended Disclosure b)

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The Hampshire Pension Fund reports on Scope 1 and 2 emissions in its analysis. Scope 3 data was not considered to be of a sufficiently robust standard and is not currently included in the disclosures of the companies that the Pension Fund invests in.

Details will be included once finalised.

Recommended Disclosure c)

Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

The Pension Fund is not currently using quantitative targets as part of its Responsible Investment Policy but is committed to continuing to monitor the carbon footprint and intensity of its investments and working with its investment managers to identify opportunities to improve environmental outcomes that also correlate with positive investment performance.

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Agenda Item 11

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