Developing Responsible Investment with Scheme Members' views

Last year we consulted on the Pension Fund's Responsible Investment (RI) policy. The Pension Fund Panel and Board, who are responsible for the Pension Fund, agreed changes to the RI Policy following the consultation.

The consultation told us most respondents (55%) believed that environmental factors were the most important Environment, Social and Governance (ESG) factor for the Fund. The Pension Fund continues to mirror this belief and prioritises the response to Climate Change in its RI policy which is summarised in this note.

The Pension Fund's beliefs and commitment

We view climate risk and the issues which contribute to it as a key risk to the Fund.

We support the objectives of the **Paris Agreement** and believe in keeping a global temperature rise this century to **well below 2^{o}C (which we take to be 1.5^{o}C)**.

The Pension Fund has committed to the aim for its investments to have **net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest**.

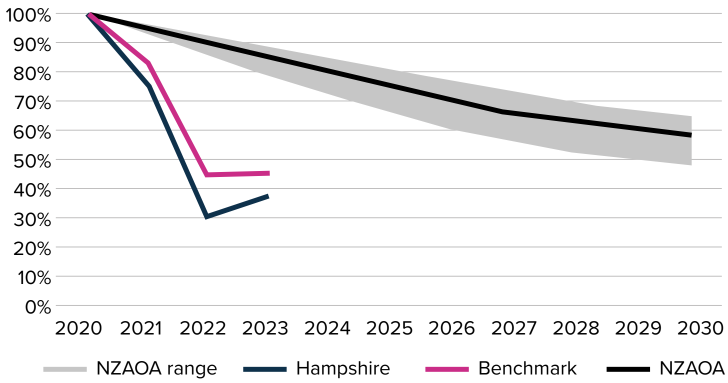
There needs to be a transition to a low carbon economy, but it must be an orderly transition that is inclusive and does not leave anyone behind – a **Just Transition**.

Monitoring the Pension Fund's Progress

To track the Fund's progress to net-zero emissions, the Pension Fund measures against the Net-Zero Asset Owner Alliance (NZAOA) trajectory.

The latest figures for 2023 show that the Pension Fund has achieved a 62% reduction since 2020, well below the NZAOA trajectory.

Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative)
(% reduction vs. Baseline)



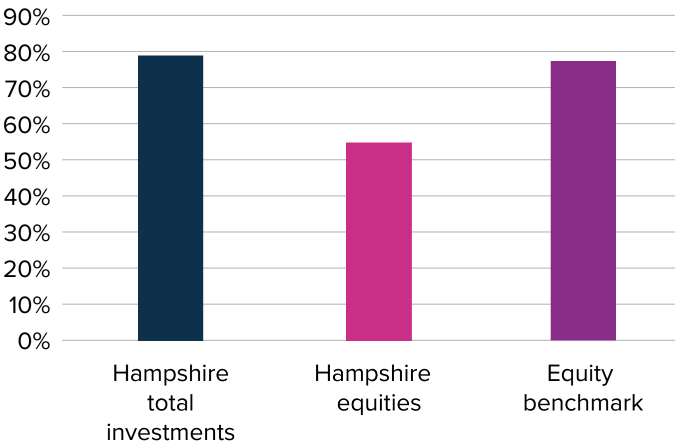
There has been a small increase in emissions from last year, for both Hampshire's equities and the benchmark as a result of:

- the majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions,
- challenging market conditions in 2022 which reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies especially energy companies – this is illustrated in the graph overleaf in the holdings of fossil fuel and renewable investments.

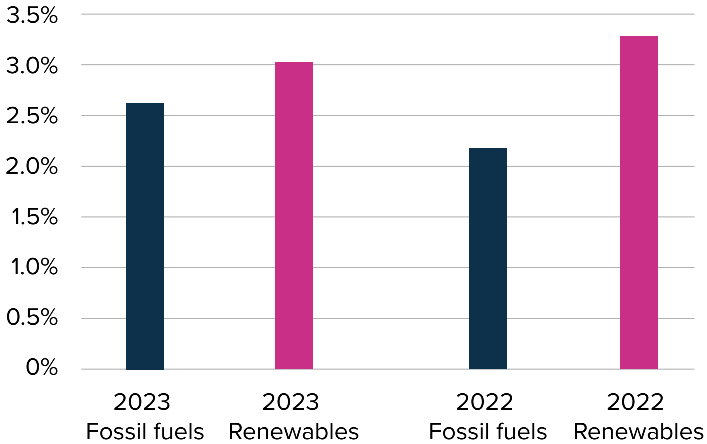
Whilst the increase is disappointing, the Pension Fund is in a good position overall, exceeding the NZAOA's target decrease. The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios – lower carbon investment strategies now account for 85% of the Fund's equity investments.

The Pension Fund supports the Taskforce for Climate Related Financial Disclosures (TCFD) and continues to report based on its recommendations, including reporting its carbon emissions.

2023 Carbon footprint (Scope 1 & 2) tCO2e/£m invested)



Holdings in Fossil Fuel and Renewable investments



How we work

The Pension Fund believes in engaging with companies rather than disinvesting from particular industries, specifically fossil fuel companies, as there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy. However, by investing in and engaging with these companies the Fund can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

The Pension Fund supports several important standards for Responsible Investment and reducing the carbon emissions of investments.

Signatory of: UK STEWARDSHIP CODE | 2021

Transition Pathway Initiative

IIGCC The Institutional Investors Group on Climate Change

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PRI Principles for Responsible Investment

More details of the Pension Fund's Responsible Investment approach are available at Responsible Investment | Hampshire County Council (hants.gov.uk)

If you have anything you'd like to share with the Pension Fund, please email responsible.investment@hants.gov.uk