

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	12 September 2023
Title:	Sustainable Investments
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 confirm the Pension Fund's current sustainable investments in its alternative investment portfolios and agree targets for the investment managers to increase these allocations.

Recommendations

2. That the sub-committee notes that:
 - Of the Pension Fund's combined 22.5% allocation to alternative investments, 3.5% is currently invested in sustainable investments (nearly £313m as at 31 March 2023).
 - Of this 0.6% (£52m as at 31 March 2023) are investments in the UK, which would count as investment in the Levelling-Up agenda.
 - The Pension Fund's alternative investment managers have confirmed that they could grow the sustainable investments in their portfolios to a combined 7.0% of the total Pension Fund by 2026.
3. That the RI sub-committee recommends to the Pension Fund Panel and Board that it agrees the aims set out in this report for the Fund's three alternative investment portfolio to increase their allocations to sustainable investments as follows by 2026:
 - Private Equity - 20%
 - Infrastructure – 50%
 - Private Debt – 10%.

Sustainable Investments

- The United Nations (UNs) sustainable development goals were born at the Conference on Sustainable Development in Rio de Janeiro in 2012. They were intended as a set of universal goals to meet the world's urgent environmental, political and economic challenges. By 2015 there was agreement on the 17 individual goals that were aimed to end extreme poverty, reduce inequality and protect the planet by 2030.

SUSTAINABLE DEVELOPMENT GOALS



- Investment can help to achieve the sustainable development goals and a number of standards have been brought in to help investors identify if their investments are meeting sustainable goals. The most established standards are from the European Commission and are summarised as follows:
 - Article 6: funds without a sustainability scope
 - Article 8: funds that promote environmental or social characteristics
 - Article 9: funds that have sustainable investment as their objective
- The Financial Reporting Council (FRC) is also developing its own standards, which follow the same 3 level framework, which is outlined below. These standards are not yet finalised, which demonstrates that while regulators are keen to ensure that investment managers are transparent and honest on the sustainability of investments (they are not *greenwashing*) the regulation in this area is still in its infancy.



- The Pension Fund is interpreting that investments classified as either Article 8 or 9, or Sustainable Improvers or Impact, will be reported as sustainable.

Sustainability and alternative investments

- The Pension Fund's focus for Responsible Investment (RI) to date has been on climate change, which reflects the consultation response it received from scheme members – 55% of scheme members identified environmental factors as the most important Environmental, Social and Governance (ESG) factor for investments. However, addressing climate change is only one of the 17 UN Sustainability Goals.
- To date it has been difficult to quantify the Pension Fund's alternative investments (private equity, private debt and infrastructure) contribution to managing climate change because the availability of carbon data for these types of investments is lagging listed investments, although this is slowly improving. However due to their ability to invest in early stage and smaller enterprises, as well as real assets, alternative investments are ideally suited to make sustainable investments. This is particularly true for the Pension Fund's infrastructure portfolio, but Private Equity and Debt are making a contribution which can be increased over time.

Hampshire's current sustainable alternative investments

- The Pension Fund's alternative investment managers (Aberdeen - private equity, JP Morgan - private debt and GCM Grosvenor - infrastructure) have been asked to identify the investments in their current portfolios that would meet sustainability objectives. The investment managers were then asked

what proportion of sustainable investments they could get to in their portfolios by 2025/26 without compromising their ability to meet Hampshire investment targets. It should be noted the three investment managers have different levels of scope to increase sustainable investments depending on the overall amount of new commitments they are due to make. GCM and Aberdeen have greater scope as their portfolios are still below their strategic allocations and/or have mature investments that are returning higher levels of capital that can be reinvested in new investments. JP Morgan have less scope as their portfolio is less mature and will be making less new commitments in the coming years.

11. The investment managers have been asked to identify the investments that would meet the criteria for Article 8 or 9 or equivalent. It should be noted that not all of these investments will have this accreditation as sustainable investments. In particular, investments that were established and raised capital prior to the finalisation of these sustainable investment standards, are unlikely to go back and seek the accreditation.
12. **Private Equity** – Aberdeen have reported that 7.0% of the current portfolio is invested in sustainable investments (based on commitment score). Aberdeen report that the portfolio could reach a 20% sustainable target by 2026, whilst still targeting returns within the Hampshire performance objective.

Case study – Too Good to Go (co-investment)

The world's largest e-commerce marketplace for surplus food, which abrdn see as a highly credible sustainability-focused investment opportunity. Aldi UK have recently started working with Too Good to Go (following the successful collaboration with Aldi Germany).

13. **Infrastructure** – GCM Grosvenor have reported that 33.4% of the current portfolio is invested in sustainable investments (based on commitment values). GCM report that the portfolio could reach a 50% sustainable target by 2026, whilst still targeting returns within the Hampshire performance objective.

Case study – Pioneer Point Partners (primary fund)

Pioneer Infrastructure Partners I is a €575 million fund seeking control equity transactions in lower middle market infrastructure in Western Europe. The Fund's primary investment focus is on investments that seek to decarbonise and modernise the energy sector as well as promote the efficient utilisation and re-use of various resources in the economy. Investments to date have included: a diversified renewables platform in Spain, an experienced developer and operator of biogas plants in Northern Ireland and the Republic of Ireland, and a processor of fish waste to produce high value, sustainable end-products for the bioenergy in Norway.

14. **Private Debt** – JP Morgan have reported that 5% of the current portfolio is invested in sustainable investments (based on commitment values). JP Morgan report that the portfolio could reach a 10% sustainable target by 2026, whilst still targeting returns within the Hampshire performance objective.

Case study – CVI Clean Energy Fund, (primary fund)

The fund's objective is climate risk mitigation through positive net green-house gas emissions. These, along many other ESG KPIs are tracked and monitored on a regular basis, and then reported to our investors.

Levelling-Up and Local Investment

15. In a Levelling-Up White Paper (LUWP) published in February 2022 the Government set out its ambitions that LGPS funds have 5% of their assets invested in projects that support the local area. Recently this has been followed-up by a policy consultation on the Next Steps on Investment published on 11 July 2023, which included confirmation of 'an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management in projects which support local areas'.
16. The consultation further confirms Levelling-Up has '12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership)' and an investment would meet the levelling up requirement if:
- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
 - it supports any local area within the United Kingdom.
17. Of the amounts identified as sustainable investments in each alternative investment portfolio above, the following amounts are invested in the UK and would also count towards the Levelling-Up agenda:
- Private Equity 0.4%
 - Infrastructure 20%
 - Private Debt 0.3%
18. In addition there are £40m of investments in the Pension Fund's UK property portfolio, which is not the subject of this paper, in affordable housing and assisted living housing that fits well with the objectives Levelling up.

Case studies

Private Equity - Eagle Genomics based in Cambridge is revolutionising how scientists conduct life sciences research and is bridging the gap between data and new insights in a rapid, systematic and traceable way. It puts data science at the fingertips of biologists and scientists to drastically reduce time and cost of research, enabling customers to achieve radical productivity improvements and true data driven discovery. Eagle is working with global leading 'fast-moving consumer goods' (FMCG) and agriculture businesses to support them in identifying positive attributes from bacteria and other ingredients, which can then support product development to give important health benefits both to end customers and also to livestock. Eagle has entered into a partnership with International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) to accelerate microbiome-based solutions to drive global climate resilience, sustainable food systems and improved nutrition.

Private Debt – loan to a U.K. based energy company offering residential solar and battery storage solutions along with Artificial Intelligence capabilities to optimise self-consumption together with exporting and importing to and from the grid in the U.K.

Infrastructure - Viridor Energy is the largest Energy from Waste portfolio in the UK with 11 operational facilities across England, Scotland and Wales. The company accepts waste from local municipalities and incinerates it to create renewable power and heat. This enables diversion of waste away from landfills thereby lowering carbon emissions by more than 30%. Viridor's ESG strategy is to achieve Net Zero greenhouse gas emissions by 2040. Viridor's strategy includes rolling out plastic extraction concept in order to reduce anthropogenic emissions (Materials derived from production involving fossil fuel, most commonly plastics) and removal of at least 1.6 mt of CO₂e per annum by 2040 (equivalent to removing ~800 thousand cars from UK roads).

Conclusion and Recommendation

19. The Pension Fund's investment strategy is to invest in well diversified portfolios of global alternative investments. By being diversified these portfolios will never fully invest in sustainable investments, but the Pension Fund's investment managers have already identified that sustainable investments can be part of a diversified portfolio that meets the Pension Fund's objectives.
20. Of the Pension Fund's combined 22.5% allocation to alternative investments 3.5% is currently invested in sustainable investments (£313m as at 31 March 2023). This figure could be further increased through the allocation to timber that was provisionally added to the Pension Fund's Investment Strategy.

21. The Fund's sustainable investments include 0.6% (£52m as at 31 March 2023) of investments in the UK, which would count as investment in the Levelling-Up agenda, plus a further £40m in the Fund's UK property portfolio.
22. The Pension Fund's alternative investment managers have confirmed that they could grow the sustainable investments in their portfolios to a combined 7% of the total Pension Fund by 2026. This is an initial step for the Fund for the first time establishing a target for sustainable alternative investments. Beyond 2026 the target can be revisited with the investment managers in the expectation of further increases.
23. It is recommended that the RI sub-committee recommends to the Pension Fund Panel and Board that it agrees the aims set out in this report for the Fund's three alternative investment portfolio to increase their allocations to sustainable investments.

Climate Change Impact Assessments

24. 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°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
25. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [Responsible Investment | Hampshire County Council \(hants.gov.uk\)](https://www.hants.gov.uk/responsible-investment).
26. This paper provides analysis of the Pension Fund's alternative investments allocated to sustainable investments, which includes investments contributing to tackling climate change, and proposals for increasing this allocation.

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 report because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

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

DocumentLocation

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 disproportionately 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.