

Responsible Investment Policy

1. Rationale and definition

The Pension Fund's investment principles include:

- i. that it has a long term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.4%pa), and
- ii. a belief in the importance of Responsible Investment (RI), including consideration of **social, environmental and corporate governance (ESG)**, which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community.

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

2. Investment Strategy

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

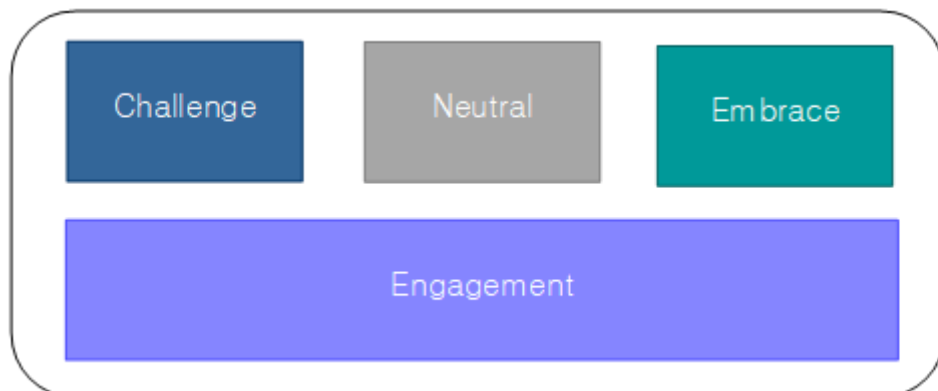
Stock/Sector Exclusions and Social Impact investments

The PFPB 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 PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

3. Framework and Approach

Consideration of ESG in Investment Decisions

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



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

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

Passive investment managers

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

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index

on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

Quantitative investment managers

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

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 PFPB delegates responsibility for making individual investment decisions (non passive) to its active investment managers.

In delivering their service to the Pension Fund, the PFPB 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 PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

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

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

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

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

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers 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.

Responsible Investment Sub-Committee

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

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

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

- a. to review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected
- b. to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;
- c. to engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy;
- d. to receive any relevant training on ESG issues;
- e. to review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate;
- f. to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate;
- g. to report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

Conflicts of interest

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

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

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

4. **Exercise of rights attaching to investments**

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

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

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

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

5. **Monitoring and Reporting**

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

RI Standards

The Pension Fund is a signatory of the UK Stewardship Code and the UN Principles of Responsible Investment (PRI) **and will consider signing up to other investor**

standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire's RI policy.

In line with the principles of the Stewardship Code and PRI the Pension Fund is committed to transparent reporting on the implementation of this policy and its investments and ESG exposure.