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.
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.

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

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 implementation of the new policy has enabled the Fund to make significant progress in this area. The Pension Fund has now published 2 years of carbon footprint data for its investments, which shows a reduction since the original benchmark. Secondly the Pension Fund Panel and Board has made three separate decisions to change the investment strategies or guidelines to reduce and limit the carbon output of three of its active and passive global equity 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 recently received training from the UN PRI and specialist RI consultants from MJ Hudson Spring.

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.

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 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.

Outcome

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.

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

Activity

The Pension Fund conducts a full risk assessment of its activities which is reviewed annually by the Pension Fund Panel and Board and published as part of the Fund's Annual Report. 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. 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. 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.

Outcome

The identification and management of risk is a key part of the discussions and monitoring that the Pension Fund undertakes with its investment managers. Where the Pension Fund Panel and Board is not satisfied that one of its investment managers has sufficiently identified or responded to a particular risk this has been cause for it to decide to disinvest from a particular strategy, having taken the appropriate advice.

In recognition of the importance of RI and the risk of ESG factors impacting long term value for investors, as outlined in the Fund's RI policy, the Pension Fund is a signatory of the UN PRI and has completed its annual reporting.

The Pension Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments under the scenario of *An Inevitable Policy Response*.

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 year's report 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.

<u>Activity</u>

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 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. This is likely to include enhancements like further development of the Pension Fund's website, better use of Plain English and accessible content, and the consideration of how member views can be sought. The Fund will also be expanding the coverage of Responsible Investment in its Annual Report for 2021 and will use this document as another means to seek feedback and input from 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.

<u>Outcome</u>

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:

- Suncor Energy (Dodge and Cox) - is an integrated oil company with operations in the Canadian oil sands, offshore Canada/North Sea, and refining. Dodge and Cox purchased Suncor Energy because of its attractive valuation; best-in-class management team; large, low cost, low decline resource base with strong free cash flow generation; conservative leverage; and potential to benefit from a rebound in the oil price. As with many energy companies, Suncor has exposure to ESG risks, including high greenhouse gas emissions and the potential for global or local regulation change that could result in restrictions on oil sands production. Dodge & Cox's analyst conducted extensive due diligence on Suncor, including meetings with management and on-site due diligence to see first-hand how the company operates. They became comfortable with how Suncor is managing its ESG risks due to its strong management team, detailed tracking of environmental metrics that show a reduction in emissions over time, and its involvement with local policy initiatives to reduce carbon emissions across the industry. Suncor has taken steps to reduce its greenhouse gas intensity and has developed several technologies aimed at further reducing their environmental impact. In addition, Suncor has developed strong community relationships and partnerships, including spending C$2.7billion with Indigenous businesses since 2014.

- Merlin (Alcentra) - Merlin owns 48 aquariums under the SEA LIFE brand as well as a zoo attached to its Chessington Park. Following the release of the documentary ‘Blackfish’, there has been a heavy emphasis on ESG related issues regarding the use of animals for entertainment purposes, and this was a prevalent focus in Alcentra’s due diligence and engagement over several years. Merlin supports numerous wildlife conservation trusts and is considered the market lead when it comes to animal welfare and ESG related issues. By way of an example, in conjunction with the global marine wildlife charity, Merlin created the SEA LIFE TRUST Beluga Whale Sanctuary. It is one of the biggest developments in captive whale and dolphin care and protection and is located in Iceland. In 2012, Merlin Entertainments acquired Changfeng Ocean World, which, at the time, owned two beluga whales. Alcentra had significant concerns around ESG risks and did a lot of analysis on these points, including conversations with management and sponsors. Ultimately, they decided they were comfortable that the actions the company had undertaken went some way to mitigate these risks.
- Carnival (Baillie Gifford) - This cruise ship operator has been a very successful investment for Baillie Gifford’s clients. However the industry is having to cope with increasingly stringent emissions regulation. Cruise ships burn heavy fuel oil (‘bunker fuel’) that is loaded with sulphur. The United Nations International Maritime Organisation has decided to address air quality by capping open sea sulphur emissions at 0.5% by 2020, down from 3.5%. With tightening environmental legislation and growing public awareness about the importance of air quality, the decision by Royal Caribbean (and indeed other cruise lines) to prolong for as long as possible the use of bunker fuel, at the expense of lower sulphur lighter fuel oil, has led Baillie Gifford to question the long-term sustainability of returns. This was one of the factors behind a sale of the holding.

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 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.

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:

- Acadian engaged with gold miners, Evolution Mining, Centerra Gold, Royal Gold and Materion, on both issues of climate as well as safety. While existing disclosure was lacking, most companies were able to provide details of the required information and commented that efforts were being taken to build a sustainability team and/or more detailed sustainability reporting. Management commented that Acadian's requests for information were useful to help determine their future reporting frameworks.
- A conversation with the founder and CEO, Susumu Fujita, of CyberAgent reassured Baillie Gifford that this Japanese digital platform business is improving its governance. Baillie Gifford had previously written to the company with their concerns at the lack of board independence. On the call Baillie Gifford were told that steps are being taken to address this, with the former CEO of Nestle Japan appointed to the board and further independent hires in the pipeline. Baillie Gifford are encouraged that CyberAgent has been receptive to their advice.
- In 2019/20, Dodge & Cox spoke extensively with the HP Inc. (HPQ) board and management about the potential merger with Xerox. Dodge & Cox talked at length with the company about capital allocation, shareholder value, and strategy. The proposal from Xerox along with HPQ's engagement with their shareholders led HPQ to adopt a new Shareholder Return Program which focused on increasing value to their shareholders. This was something Dodge & Cox were very pleased with as they had many focused conversations on this topic. Additionally, when HPQ adopted a Poison Pill, Dodge & Cox spoke with them about the reasons behind the decision. Dodge & Cox expressed their dissatisfaction around the adopted Poison Pill and communicated their expectations around messaging and removal of this Pill. HPQ removed the Poison Pill from their by-laws well before the Pill expired.

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

Activity

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 £32m. 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:

- UBS has reported that it has led dialogue with Equinor in collaboration with HSBC Asset Management and Storebrand Asset Management within the Climate Action 100+ umbrella. As a result of the initial positive engagement, the company has agreed to a joint statement to strengthen its commitments on climate change in pursuit of a business strategy consistent with the Paris Agreement. Future actions to which the company has committed include: an assessment of its portfolio, including new material capital expenditure investments towards a well below 2 degree scenario, a review of existing climate-related targets up to 2030 and the setting of new ambitions beyond that date, strengthening of the link between updated climate related targets and remuneration for executives and employees and reporting in line with financial recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD).
- Collaborative action co-ordinated by Climate Action that has led to communications between investors and the companies with specific focus on climate risks. Progress has been made in terms of Quantas' efforts for initially setting emissions reduction targets and subsequently their strategies to meet these targets. They remain committed to continue the discussion on these issues as they evolve, encouraging increasing transparency and identification of climate related risks as well as considering actions to manage these risks.
- UBS took the lead in engaging with Takeda Pharmaceutical on their Access to Medicine (AtM) Strategy, as part of the Access to Medicine Foundation's

collaborative engagement initiative. UBS identified the following issues for engagement: the expansion of their equitable pricing strategies, enhancing transparency in relation to filling for market approvals and impact measurement. UBS have had a positive dialogue with the company and Takeda has progressed on all engagement areas. It covers a large number of innovative medicines with its equity pricing strategies, and has announced a collaboration with Duke University to create an Access to Health Impact Measurement Framework.

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. Examples include:

- In 2019, Baillie Gifford visited a local fulfilment centre to help them understand the environment in which warehouse workers operate, and Baillie Gifford spoke with Amazon's senior independent director to encourage greater disclosure and better practices. During a further meeting in 2020, Amazon's new head of ESG engagement acknowledged shortcomings in the company's disclosures on social issues (specifically employee health and safety) and signalled that they wish to engage with Baillie Gifford on this topic. This will remain an ongoing focus for engagement activities which Baillie Gifford hopes will result in further tangible improvements in transparency and practice.
- At the 2018 Ryanair AGM, the chair received a 29% oppose vote and the Senior Independent Director (SID) had a 33% oppose vote from shareholders. Baillie Gifford opposed the re-election of both due to concerns over tenure, and reservations on the oversight of operational events which had occurred. Baillie Gifford subsequently met both the chair and SID to discuss board succession, the difficulty they experienced when engaging on voting shares attached to American Depositary Receipts, and the impact of Brexit on voting rights. Subsequently the company announced that the chair and SID would step aside in 2020, the CEO has extended his contract in a new position as group CEO, and there is a new share option programme for executives and non-executives. Baillie Gifford wrote to the chair and chair-elect to request a follow up engagement to discuss recent announcements.
- The Pension Fund's passive investment strategies hold Korea Electric Power Corp. The investment manager UBS has been engaging with the company within the collaboration Climate Action 100+ since 2018. The engagement has

focused on the company's strategy to transition to a low carbon economy. More specifically, UBS has been asking management to enhance GHG emissions reduction targets, increase ambitions on renewable energy, define a coal phase-out plan and align disclosure with the TCFD framework. As the company has planned further investments in new coal plants in Vietnam (Vung Ang 2), Indonesia (Jawa 9 and 10) and other emerging markets and given the limited progress in other respects, UBS co-signed a private letter to the board of the company, a public letter to the South Korean Ministry of Economy and Finance (a major shareholder in the company) and a media article to express their concerns. As a way of reiterating their expectations, UBS has also voted against the appointment of three board members at the extraordinary general meeting (EGM) in September 2020. In 2020, the company approved the overseas coal fired power plants in Indonesia and Vietnam. However, it also confirmed soon afterwards that it will not pursue investments in new coal plants overseas, including two projects in the Philippines and South Africa. Additionally, the South Korean government has committed to achieve net-zero emissions by 2050, in combination with pledging to a national plan to close 30 coal-fired power plants by 2034 and ten of those by 2022.

- The Pension Fund’s has exposure to Vale through its passive equity portfolio. The Pension Fund’s passive investment manager UBS escalated its engagement with Vale following the catastrophic Brumadinho tailings dam failure in January 2019. UBS engaged directly with the company and joined a collaborative engagement coordinated by the PRI. The engagement objectives were to see Vale put a robust remediation plan in place that includes the consultation of all affected stakeholders, changes to procedures to prevent occurrence at its other sites, and better disclosure and lifecycle management of the company’s tailings storage facilities. A number of these changes have taken place and UBS’ focus is now on the effective implementation of these measures.

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: 2021-03-05 PFRIS Shareholder voting.pdf (hants.gov.uk).

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.