

AT A MEETING of the Hampshire Pension Fund Responsible Investment Sub-Committee of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Friday, 1st March, 2024

Chairman:

*Councillor M. Kemp-Gee

Vice-Chairman:

*Councillor T. Thacker

Elected members of the Administering Authority (Councillors)

*Councillor D. Hiscock

*Councillor T. Davies

Employer Representatives (Co-opted members):

Scheme Member Representatives (Co-opted members):

*Mr P. Reynolds

Observing

Cllr A. Crawford

*present

55. **APOLOGIES**

No apologies were received, however Mr Phillip Reynolds was in attendance as the substitute scheme member representative, as a result of a vacancy in that appointment.

56. **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.

No declarations were made.

57. **MINUTES**

The minutes of the previous meeting of the Pension Fund Responsible Investment Sub-Committee were agreed as a true record and signed by the Chairman.

58. **DEPUTATIONS**

No deputations were received.

59. **CHAIRMAN'S ANNOUNCEMENTS**

No announcements were made.

60. **SCHEME MEMBER COMMUNICATIONS**

The Sub-Committee received a report from the Deputy Chief Executive and Director of Corporate Operations updating the Sub-Committee on communication to and from scheme members since its last meeting.

It was heard that investment in fossil fuels continued to be a core theme in communication from scheme members and was a matter discussed at the previous meeting of the Panel and Board and was planned to be discussed again at the forthcoming Panel and Board meeting at end of March.

Appended to the papers was the draft 2024 responsible investment update, which Members heard would be published and shared with scheme members, through means such as the pensioner's newsletter, as part of the Panel and Board's wider approach to communicating proactively with scheme members.

Officers explained that there was a broadly positive message being reported with data on the impact of investments on carbon emission and in fossil fuels demonstrating the Pension Fund investment strategy was moving towards delivering its strategic aims.

RESOLVED:

That the sub-committee note the communication received from scheme members on Responsible Investment (RI) and that the Pension Fund will publish its fifth annual RI update for scheme members.

61. **STEWARDSHIP HIGHLIGHT REPORT**

The Sub-Committee received a report from the Deputy Chief Executive and Director of Corporate Operations providing information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets.

Members noted that the appendices to the report highlighted how investment managers had exercised their voting rights during the period July to December 2023, with appendix 1 demonstrating where fund managers votes had varied. Members noted the significant number of instances where voting had differed, and heard in response that this was a matter both regularly monitored and currently under discussion with ACCESS.

It was further noted that the report introduced the Annual Stewardship Code compliance report, which was an annual requirement of the Pension Fund's membership of the UK Stewardship Code. Through the compliance report the

Council had sought to demonstrate how the Pension Fund had met the Financial Reporting Council's (FRC) rigorous compliance standards and to demonstrate the outcome of changes made since feedback was received on the previous year's compliance report.

It was heard that ACCESS was not a stewardship code signatory at the time of the meeting, but was in the process of writing its application and once submitted would need to undertake work to develop its own compliance policies. It was further noted that PIRC had been appointed to provide support in progressing ACCESS's responsible investment approach.

In response to Members questions it was heard that:

- An alternative approach to delegating shareholding voting to investment managers would be to consider the use of a third party proxy voting service, such as PIRC. It was agreed that the level of inconstancy in voting between investment managers was not a particularly satisfactory position. Officers explained that there had not been a strategic pattern of difference between votes cast, however that through this cycle of reporting an increase in the level of votes cast in different directions had been noted and that this was being closely monitored and further conversation would be undertaken with investment managers as needed and a report brought back at the next meeting of the Sub Committee on progress in this matter.

The Chairman invited Cllr Crawford to share his observations on the report, through which it was heard that:

- Whilst any alignment in the climate change principles of the County Council and the Pension Fund would be beneficial, this should not be a strategic aim as the Fund would be approaching the matter from its own perspective of the management of the Fund to pay pension obligations.
- The decision to amend to the Panel and Board's investment strategies to target over 30% of the Fund's alternative investments to sustainable and impact investments by 2025/26 was taken by the Panel and Board in September 2023, following work with three investment members to understand how much they could change their investment portfolio by 2026, whilst maintaining a diversified portfolio. It was noted that this had represented a significant increase in sustainable investments compared with the previous approach.

Cllr Davies joined the meeting at this point.

- It was agreed that further information within the report regarding the portfolio ESG assessments, as shown on page 30 of the report, would be beneficial in helping scheme members understand what the data was demonstrating.

It was heard the compliance report would be published on the County Council's website, as per the FRC requirement.

RESOLVED:

- That the Pension Fund Responsible Investment Sub-Committee notes the Fund's annual compliance report with the UK Stewardship Code, which will be submitted to the Financial Reporting Council (FRC) for Hampshire to reapply for membership of the Code.
- 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 and reported in the Fund's Stewardship Code update report attached to this report.

62. TASKFORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURE (TCFD) REPORT

The Sub-Committee received a report from the Deputy Chief Executive and Director of Corporate Operations presenting the Pension Fund's fourth annual Taskforce for Climate Related Financial Disclosure (TCFD) report.

The Panel and Board, following its submission to the consultation on Climate Change Risk Reporting, were awaiting the response to the consultation from the Department for Levelling Up, Housing & Communities (DLUHC), but the Pension Fund continued to report in accordance with the proposed new regulations and in a manner which was felt to represent the best practice.

As observed earlier in the meeting, officers reported a broadly positive picture and a reduction in carbon footprint over last 12 months. It was noted that the Pension Fund Panel and Board had agreed a number of changes to the investment strategy, which would require investment managers to take action to reduce the carbon footprint of investments.

In response to Member's questions it was heard that:

- Disorderly transition vs orderly transition meant companies and governments taking a proactive change to prevent damage to the environment, before reactive responses would be required. It was recognised that the impact any actions may have on climate change was an inexact science and would be subject to ongoing review ahead of the next actuarial valuation in March 2025.

The Chairman invited Councillor Crawford to share his observations on the report, through which it was heard that the Pension Fund would continue to take a flexible position in respect of adopting sustainable investments, and that the deadline to achieve net-zero was 2050 at the latest, with the view that continuing to make incremental changes to portfolios would have a positive impact on sustainable investments.

It was confirmed that the annual TFCFD report would be made available on the County Council's website.

RESOLVED:

That the Pension Fund's annual TCFD report is noted.

Chairman, 6 September 2024