

# Public Document Pack



Hampshire  
County Council

## NOTICE OF MEETING

<b>Meeting</b>	Hampshire Pension Fund Panel and Board
<b>Date and Time</b>	Friday, 27th March, 2020 at 10.00 am
<b>Place</b>	Mitchell Room, EII Podium, Winchester
<b>Enquiries to</b>	members.services@hants.gov.uk

John Coughlan CBE  
Chief Executive  
The Castle, Winchester SO23 8UJ

## FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

## AGENDA

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

### 3. CONFIRMATION OF MINUTES - 14 FEBRUARY 2020 (NON-EXEMPT) (Pages 5 - 8)

To confirm the non-exempt Minutes of the meeting held on 14 February 2020.

**4. DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6. ACCESS JOINT COMMITTEE MINUTES - 9 DECEMBER 2019 (Pages 9 - 12)**

To receive the Minutes of the ACCESS Joint Committee held on 9 December 2019.

**7. MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE OF 6 MARCH 2020 (Pages 13 - 30)**

To receive the Minutes and report from the Responsible Investment Sub-Committee which met on 6 March 2020 and contains recommendations for approval by the Hampshire Pension Fund Panel and Board.

**8. EXCLUSION OF THE PRESS AND PUBLIC**

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the reports.

**9. CONFIRMATION OF THE MINUTES - 14 FEBRUARY 2020 (EXEMPT) (Pages 31 - 34)**

To confirm the exempt minutes of the meeting held on 14 February 2020.

**10. MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE - 6 MARCH 2020 (EXEMPT) (Pages 35 - 36)**

To receive the exempt minutes of the Responsible Investment Sub-Committee held on 6 March 2020.

**11. INVESTMENT STRATEGY REVIEW STAGE 2 (Pages 37 - 74)**

To consider an exempt report of the Director of Corporate Resources – Corporate Services regarding a review of the Pension Fund’s investment strategy.

**12. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE** (Pages 75 - 158)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Pension Fund Panel and Board on the progress of the alternative investments portfolio.

**ABOUT THIS AGENDA:**

**On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.**

**ABOUT THIS MEETING:**

**The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact [members.services@hants.gov.uk](mailto:members.services@hants.gov.uk) for assistance.**

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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# Agenda Item 3

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 14 February 2020.

Chairman:

\* Councillor M. Kemp-Gee

Vice-Chairman:

Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

\* C. Carter

\* A. Joy

\* A. Dowden

\* P. Latham

\* A. Gibson

\* B. Tennent

J. Glen

\* D. Mellor

Employer Representatives (Co-opted members):

\* Councillor P. Taylor (District Councils - Rushmoor Borough Council)

\* Councillor S. Barnes-Andrews (Southampton City Council)

\* Mrs L Bartle (University of Portsmouth)

Councillor C. Corkery (Portsmouth City Council substitute employer representative)

Scheme Member Representatives (Co-opted members):

\* Dr C. Allen (pensioners' representative)

\* Mr N. Wood (scheme members representative)

\* Dr L. Gowland (deferred members' representative)

\* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

\* C. Dobson

\*present

## **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

## 236. **APOLOGIES FOR ABSENCE**

Councillors Thacker and Glen sent their apologies.

## 237. **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.

238. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 13 December 2019 were confirmed.

239. **DEPUTATIONS**

No deputations were received.

240. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Mrs Liz Bartle and Dr Lindsey Gowland and informed the Panel and Board they have replaced Mr David Robbins and Mrs Valerie Arrowsmith as the Other Employer representative and Deferred Member representative respectively. The Chairman told the committee he will be writing to Valerie and David to express the Panel and Board's thanks for their contribution to the committee.

The Chairman also congratulated Neil Wood on being reappointed as the Active Member representative.

241. **GOVERNANCE: ACCESS BUSINESS PLAN**

The Panel and Board considered the report from the Director of Corporate Resources (Item 6 in the Minute Book) including the ACCESS Business Plan for 2020/21, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2020/21 was £1.08m of which Hampshire's equal share would be £98,000.

RESOLVED:

- (a) That the ACCESS Business Plan for 2019/20 was approved.

242. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

243. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 13 December 2019 were confirmed.

244. **INVESTMENTS: INVESTMENT STRATEGY REVIEW**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 9 in the Minute Book) supporting the review of the Investment Strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

245. **INVESTMENTS – INVESTMENT REPORT**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 10 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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## ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Committee Room 1 - Islington Town Hall on Monday, 9th December, 2019.

PRESENT: Cllr Mark Kemp-Gee - Chair (Hampshire CC), Cllr Susan Barker – Vice-Chair (Essex CC) Cllr Jonathan Ekins (Northamptonshire CC), Cllr Gerrard Fox (East Sussex CC), Cllr Andrew Garratt – substitute (Isle of Wight), Cllr Terry Rogers (Cambridgeshire CC), Cllr Judy Oliver (Norfolk), , Cllr Ralph Sangster (Hertfordshire CC) and Mr Charlie Simkins – (Kent CC).

ALSO PRESENT: Kevin McDonald (ASU Director) and Dawn Butler (ASU Support Officer), Clifford Sims (Squire Patton Boggs), Elizabeth Graham (Squire Patton Boggs)

OFFICERS: Andrew Boutflower (Hampshire), Glenn Cossey (Norfolk), Alison Mings (Kent), Michelle King (East Sussex), Paul Tysoe (Cambridgeshire) Sharon Tan (Suffolk) Jo Thistlewood (Isle of Wight), Mark Whitby (Northamptonshire) and Joel Cook (Kent - Clerk)

### UNRESTRICTED ITEMS

**163. Election of Chair.**

*(Item. 2)*

Cllr Simkins nominated Cllr Kemp-Gee, seconded by Cllr Barker. There were no further nominations.

RESOLVED that Cllr Kemp-Gee be elected Chairman of the Joint Committee.

**164. Election of Vice-Chair.**

*(Item. 3)*

Cllr Kemp-Gee nominated Cllr Barker, seconded by Cllr Sangster. There were no further nominations.

RESOLVED that Cllr Barker be elected Vice-Chairman of the Joint Committee.

**165. Minutes of the meeting held on 9 September 2019.**

*(Item. 4)*

RESOLVED that the minutes from the meeting held on 9 September 2019 be signed as a true and accurate record.

**166. ASU Update.**

*(Item. 5)*

- (1) Kevin McDonald (ASU) presented an updated overview of the ACCESS Support Unit.

RESOLVED that the updated overview of the ACCESS Support unit be noted.

**167. Governance Update.**

*(Item. 6)*

- (1) Kevin McDonald (ASU) updated the Joint Committee on the progress of the Phase 3 Governance work.
- (2) As a result of ongoing engagement with Monitoring Officers, the timetable had been revised.
- (3) A governance training session for the Joint Committee would be held after the meeting.

RESOLVED that the following be noted:

1. The revised timetable for completion of phase 3 governance deliverables
2. The revised IAA would take effect upon execution by all participating authorities. Completion of the process to be confirmed in writing by the Clerk to the Committee.

**168. Business plan, Budget and Risk Summary.**

*(Item. 7)*

- (1) Kevin McDonald (ASU) provided an update on the activities undertaken since the last Joint Committee, the associated spend and a risk summary.
- (2) Overall, there was an underspend forecast in 2019-20 of £184k. This was welcomed by Members who commented positively on the efficiency and work of the ASU.
- (3) The business plan and budget for 2020-21 were presented to the Joint Committee. The plan was based upon the ACCESS governing principles, as established by the participating Authorities.
- (4) It was highlighted that East Sussex County Council were undertaking an ESG review and their representative offered to share their findings with the Joint Committee.
- (5) Mr McDonald advised the Committee that work was continuing in relation to addressing illiquid assets, noting that the focus of ACCESS activity had been on listed assets so far. Further updates on this work would be provided at future meetings.

- (6) The Chair commented on the need to review and update ACCESS' communications strategy, with consideration of a more proactive approach to improve understanding of the positive work of ACCESS.

RESOLVED that

1. the updated business plan, the ASU workstream progress report, the revised 2019/20 outturn and summary risk register be noted.
2. recommend the 2020/21 business plan to the ACCESS Authorities; and
3. approve the 2020/21 budget totalling £1.080m to support the proposed business plan.

**169. Motion to Exclude the Press and Public.**

*(Item. 8)*

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

**170. Risk Register.**

*(Item. 9)*

RESOLVED that the report be noted; and the revisions to the Risk Register as set out in the report be approved.

**171. Sub-funds / Transitions / Alternatives.**

*(Item. 10)*

- (1) Andrew Bouflower (Hampshire) provided an update on the progress made in launching the ACS investment sub-funds and outlined the requirement for an additional Emerging Markets (EM) equities manager.
- (2) It was also explained that further work was being undertaken in relation to identifying options for pooling illiquid investments.

RESOLVED that:

1. progress in launching the ACS investment sub-funds be noted.
2. the request to Link for a search for an Emerging Markets (EM) equities manager be approved.
3. the progress in identifying options for pooling illiquid investments be noted.

**172. Contact Management Update.**

*(Item. 11)*

- (1) Kevin McDonald provided an overview of contract monitoring activity and key points, including planned work to improve KPI structuring and develop dashboard to assist in future monitoring. It was confirmed that further updates would be provided in March 2020.

RESOLVED that that the report be noted.

**173. LiNK Presentation.**

*(Item. 12)*

- (1) Karl Midl and James Zealander delivered a presentation and answered questions.

RESOLVED that the presentation be noted.

**174. MHCLG Return.**

*(Item. 13)*

- (1) Kevin McDonald updated the committee on work being undertaken to address requirements for providing Pooling updates to the Ministry for Housing, Communities and Local Government (MHCLG).

RESOLVED that the ACCESS MHCLG Pooling update submission be noted.

**175. Items for information / advice.**

*(Item. 14)*

- The Joint Committee agreed that the Chairman should write to the former Chairman, Cllr Reid, to thank him for his work on ACCESS.
- The Chairman announced that this would have been Nicola Mark's (Norfolk) last meeting. The Joint Committee agreed that the Chairman would write to her to thank her for all her work on ACCESS.
- Cllr Oliver explained that Norfolk were seeking advice following the Government's response to their SAB consultation (particularly in relation to fiduciary duty). The advice would be shared with the Joint Committee once received.

AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held at The Castle, Winchester on Friday 6 March 2020.

Chairman:

\* Councillor M. Kemp-Gee

Vice-Chairman:

\*Councillor P. Latham

Elected members of the Administering Authority (Councillors):

\* B. Tennent

\*J. Glen

Employer Representatives (Co-opted members):

\* Councillor S. Barnes-Andrews (Southampton City Council)

Scheme Member Representatives (Co-opted members):

\* Dr C. Allen (pensioners' representative)

Cllr A Dowden attended as an observer

\*present

## **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

## 15. **APOLOGIES FOR ABSENCE**

The Director of Corporate Resources, Carolyn Williamson, sent her apologies.

## 16. **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.

17. **CONFIRMATION OF MINUTES**

The minutes of the RI Sub-Committee held on 3 September 2019 were confirmed.

18. **DEPUTATIONS**

No deputations were received.

19. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reminded members that the Panel and Board had agreed to review the appointments to the sub-committee after its first year of operation.

20. **RESPONSIBLE INVESTMENT POLICY REVIEW**

The RI Sub-Committee considered the report from the Director of Corporate Resources (Item 6 in the Minute Book) proposing changes to the Pension Fund's RI policy. The changes had been made following a review of the policy by specialist RI consultants from MJ Hudson Spring, who had also delivered training to the Pension Fund Panel and Board in January 2020.

MJ Hudson Spring had also suggested a 'roadmap' of activity for the Pension Fund to further improve and develop the Fund's approach to RI, starting with greater transparency of the Fund's investment managers' RI capabilities and the ESG risks in the Fund's holdings, which can be incorporated into future RI reporting. It was recommended that MJ Hudson Spring are commissioned to conduct a baseline RI assessment of the Fund's investment managers and a small sample of the Fund's alternative investments for an approximate cost of £20,000.

RESOLVED:

- a) That the updates to the RI policy based on feedback from MJ Hudson Spring are approved and recommended to the Pension Fund Panel and Board.
- b) That the sub-committee note the suggested RI roadmap for Hampshire from MJ Hudson Spring and approve and recommend to the Pension Fund Panel and Board the proposal for the baseline RI assessment of the Fund's investment managers.

21. **SHAREHOLDER VOTING HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 7 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in. The analysis showed that the majority of votes cast against companies' management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

22. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

23. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the RI Sub-Committee held on 3 September 2019 were confirmed.

24. **RESPONSIBLE INVESTMENT ANNUAL REPORT**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 10 in the Minute Book) reporting on the Pension Fund's RI activities. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Responsible Investment Sub-Committee
<b>Date:</b>	6 March 2020
<b>Title:</b>	Responsible Investment policy review
<b>Report From:</b>	<i>Director of Corporate Resources – Corporate Services</i>

**Contact name:** Andrew Bouflower

**Tel:** 01962 847407

**Email:** andrew.bouflower@hants.gov.uk

#### **Purpose of this Report**

1. To provide the RI sub-committee with a summary of the output from the specialist RI consultants, MJ Hudson Spring, who have reviewed the Pension Fund's RI policy.

#### **Recommendations**

2. That the updates to the RI policy contained in Annex 1 of this report, based on the feedback from MJ Hudson Spring are approved and recommended to the Pension Fund Panel and Board.
3. That the sub-committee note the suggested RI roadmap for Hampshire from MJ Hudson Spring and approve and recommend to the Pension Fund Panel and Board the proposal for the baseline RI assessment of the Fund's investment managers.

#### **Review of the RI policy**

4. The Pension Fund's revised RI policy was originally agreed in July 2019. The specialist RI consultants, MJ Hudson Spring, were commissioned to review the policy and recommend to the Pension Fund where improvements could be made. MJ Hudson Spring provided feedback to the Pension Fund Panel and Board at a training session on 28 January 2020.
5. Following the changes recommended by MJ Hudson Spring the Fund's RI policy has been amended and is contained in Annex 1 to this report with tracked changes. There are a small number of other changes and it has been restructured in line with MJ Hudson Spring's framework for RI:

1. Rationale and definition
2. Investment strategy
3. Framework and approach
4. Exercising of rights attached to investments
5. Monitoring and reporting

## **RI Roadmap**

6. MJ Hudson Spring's feedback included a suggested RI roadmap for the Pension Fund, shown in Appendix 1. The roadmap includes suggestions for further improving and developing the Pension Fund's approach to RI, starting with greater transparency of the Fund's investment managers' RI capabilities and the ESG risks in the Fund's holdings, which can be incorporated into future RI reporting. It is recommended that MJ Hudson Spring are commissioned to conduct a baseline RI assessment of the Fund's investment managers and a small sample of the Fund's alternative investments for an approximate cost of £20,000.

**REQUIRED CORPORATE AND LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For 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.

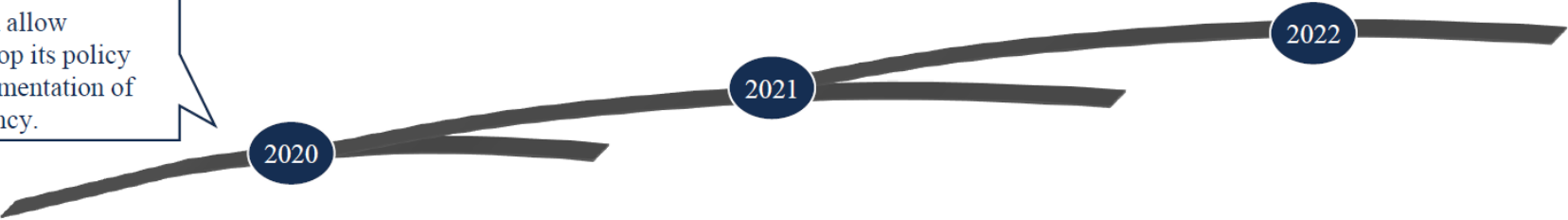
### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

# Hampshire’s suggested RI roadmap

FOR DISCUSSION

Investor ESG policies often are subject to an annual review. Annual reviews can allow Hampshire to develop its policy alongside the implementation of increased transparency.



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Elements	Stepping stones		
<b>Policy</b>	<ul style="list-style-type: none"> <li>• Focus on transparency of investments through managers</li> <li>• Approach to assess and engage with managers</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency of investments, directly</li> <li>• View of which industries are ‘contentious’</li> </ul>	<ul style="list-style-type: none"> <li>• Best-in-class policy, including 5 elements: rationale &amp; definition, investment strategy, framework &amp; approach, engagement &amp; voting, and monitoring&amp; reporting</li> </ul>
<b>Assessment &amp; transparency</b>	<ul style="list-style-type: none"> <li>• Baseline manager assessment, for all managers (113)</li> <li>• Request reports from managers</li> <li>• Sample analysis of invested industries</li> </ul>	<ul style="list-style-type: none"> <li>• All managers assessed on specific criteria Hampshire views as important</li> <li>• Categorisation of holdings into “Embrace”, “Neutral”, “Challenge” buckets</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with investment managers on sustainability topics</li> <li>• Full portfolio screened (and reporting of progress)</li> <li>• Consider reporting on % in “Embrace”, “Neutral”, “Challenge” buckets</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>• Report on stated intentions</li> <li>• Report on managers’ ESG performance</li> </ul>	<ul style="list-style-type: none"> <li>• Report on engagements with managers</li> <li>• Reporting on % of portfolio screened</li> </ul>	<ul style="list-style-type: none"> <li>• Report on actions taken</li> </ul>

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## 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.

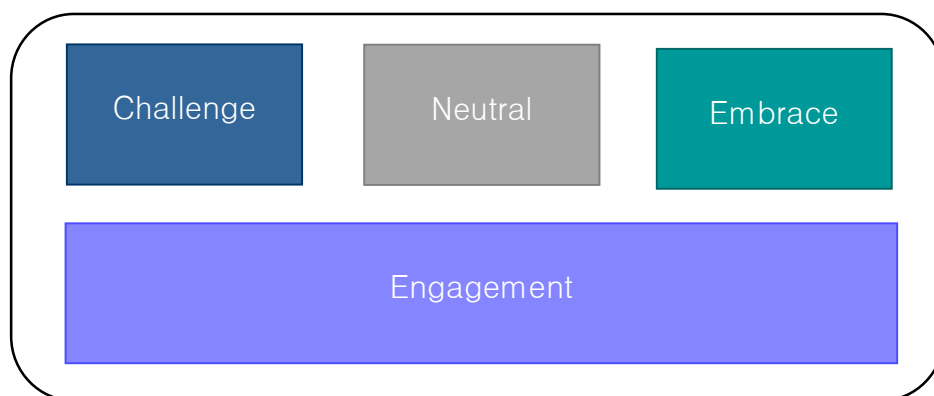
### Stock/Sector Exclusions and Social Impact investments

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](http://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.

#### **4.4. 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.

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