

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Responsible Investment Sub-Committee
Date and Time	Friday, 6th March, 2020 at 10.00 am
Place	Denning Room
Enquiries to	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 from the meeting.

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 (Pages 5 - 10)

To confirm the minutes of the previous meeting on 3 September 2019.

4. DEPUTATIONS

To receive any deputations pursuant to Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. RESPONSIBLE INVESTMENT POLICY REVIEW (Pages 11 - 24)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Sub-Committee with a summary of the output from the specialist consultants who have reviewed the Pension Fund's Responsible Investment policy.

7. SHAREHOLDER VOTING HIGHLIGHT REPORT (Pages 25 - 36)

To consider a report from the Director of Corporate Resources-Corporate Services providing information on how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in.

8. EXCLUSION OF 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 report.

9. CONFIRMATION OF EXEMPT MINUTES (Pages 37 - 38)

To confirm the Exempt Minutes of the meeting held on 3 September 2019.

10. RESPONSIBLE INVESTMENT ANNUAL REPORT (Pages 39 - 54)

To consider a report from the Director of Corporate Resources-Corporate Services introducing the Pension Fund's first Responsible Investment Annual Report.

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 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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AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held at The Castle, Winchester on Tuesday 3 September 2019.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):
p P. Latham
p B. Tennent
a J. Glen

Employer Representatives (Co-opted members):
p Councillor S. Barnes-Andrews (Southampton City Council)

Scheme Member Representatives (Co-opted members):
p Dr C. Allen (pensioners' representative)

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.

1. **ELECTION OF CHAIRMAN AND VICE CHAIRMAN**

Cllr Kemp-Gee was elected as Chairman. Cllr Latham as Vice-Chairman.

2. **ELECTION OF VICE CHAIRMAN**

Cllr Latham was elected as Vice-Chairman.

3. **APOLOGIES FOR ABSENCE**

No apologies were received.

4. **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.

5. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman had no announcements.

6. **DEPUTATIONS**

There were no deputations.

7. **SUB-COMMITTEE WORK PLAN**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) proposing a work plan for the sub-committee. The work plan was principally taken from the sub-committee's terms of reference agreed by the Pension Fund Panel and Board in July 2019. A number of items from the work plan featured later in the meeting and one of the sub-committee's key outputs; the Pension Fund's annual report on responsible investment, would be drafted for review at the sub-committee's next meeting.

RESOLVED:

(a) That the work plan was approved

8. **UK STEWARDSHIP CODE**

The Panel and Board considered a report of the Director of Corporate Resources (item 8 in the Minute Book) on signing the UK Stewardship Code. The Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Becoming a signatory does not direct the Pension Fund to manage its investment strategy in a particular way or invest or disinvest in any particular companies or industries. 32 of the 89 LGPS funds in England and Wales have signed up to and reported their compliance against the Code, which is one of two major standards for investors to demonstrate their commitment to RI.

There is no annual fee for being a UK Stewardship code signatory. The FRC expects signatories of the Code to publish on their website a statement that describes how they have applied each of the seven principles of the Code, discloses the specific information requested in the guidance to the principles and explains why the signatory has not complied with and principles of the Code or elements of guidance.

RESOLVED:

- (a) That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the UK Stewardship Code.

9. **PRINCIPLES FOR RESPONSIBLE INVESTMENT**

The Panel and Board considered a report of the Director of Corporate Resources (item 9 in the Minute Book) on signing the Principles for Responsible Investment (PRI). The PRI is an internationally recognised standard and is the second of two (after the UK Stewardship Code) major standards enabling signatories to publicly demonstrate their commitment to RI. Becoming a signatory does not direct the Pension Fund to manage its investment strategy in a particular way or invest or disinvest in any particular companies or industries.

There is an annual fee for being a PRI signatory. For 2019/20 this would be £6,529 for a fund of Hampshire's size. Signatories are required to report under the PRI framework each year (after their first year of joining), which is due for submission between January and March. The PRI describe its principles as 'for most signatories, the commitments are a work-in-progress and provide direction for their responsible investment efforts, rather than a checklist with which to comply'.

RESOLVED:

- (a) That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the PRI.

10. **GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARKING (GRESB)**

The Panel and Board considered a report of the Director of Corporate Resources (item 10 in the Minute Book) participating in the GRESB. The Pension Fund's UK property investment manager CBRE is recommending the Pension Fund uses GRESB as it considers it to be the best independent, comparable and reliable assessment of ESG performance for a property portfolio.

The cost to Hampshire of participating in GRESB will be nearly £4,000 per annum. The information provided in the GRESB reporting will practically benefit the Pension Fund in highlighting the areas in the portfolio for CBRE to focus their efforts in improving sustainability. CBRE estimate that the cost of work to improve the portfolio's sustainability would be an additional £40,000 per annum in professional fees in managing tenants and capital expenditure to improve the quality of the properties in the portfolio. CBRE recommend that this approach is necessary as delay in managing these issues can lead to higher costs

and weaker performance in the long run.

RESOLVED:

- (a) That the recommendation was changed and this item was deferred until the RI sub-committee's next meeting when further details will be sought from CBRE on the additional costs to the portfolio of implementing issues identified in the benchmarking and how these related to the portfolios ongoing maintenance.

11. **SHAREHOLDER VOTING**

The Panel and Board noted a report of the Director of Corporate Resources (item 11 in the Minute Book) on the Pension Fund's shareholder voting record. The Director highlighted that shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating. How votes are cast will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held between its directly held equities, or pooled investments, either pooled within ACCESS or in investment managers' own pooled funds.

In line with best practice the Pension Fund will publish its full shareholder voting record on its website. The RI sub-committee noted the exception reports from the Fund's investment managers on the instances where they voted against company management or shareholder resolutions.

12. **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 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.

13. **SHAREHOLDER VOTING (EXEMPT APPENDIX)**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 13 in the Minute Book) on an investment managers exception report of its shareholder voting.
[SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT

INFORMATION].

14. **ACADIAN'S PORTFOLIO ESG CONSIDERATION**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 14 in the Minute Book) on Acadian's portfolio's operation in relation to the Pension Fund's Responsible Investment Policy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

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HAMPSHIRE COUNTY COUNCIL

Decision Report

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

Contact name: Andrew Boutflower

Tel: 01962 847407

Email: andrew.boutflower@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 contained in the confidential appendix.

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**

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

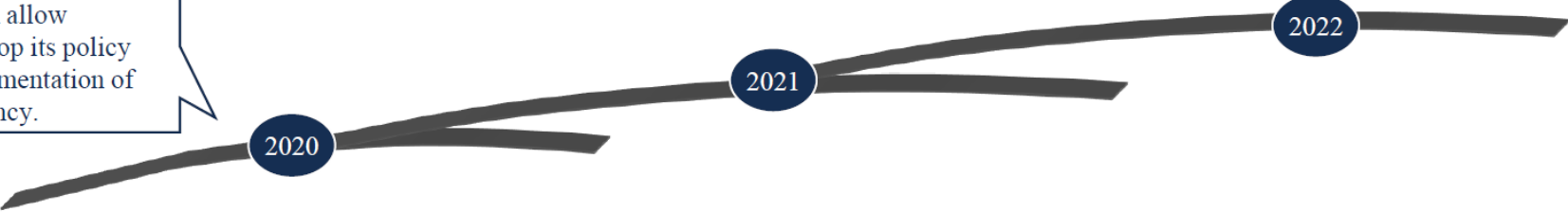
2. Equalities Impact Assessment:

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

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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.

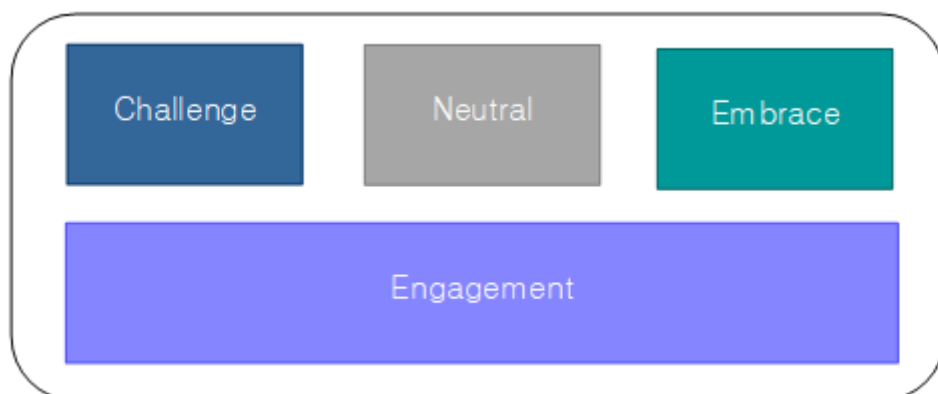
Stock/Sector Exclusions and Social Impact investments

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. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund's investments. Details of the declared interests of Council members are maintained and monitored on a Register of

Member Interests. These are published on the Council's website under each member's name and updated on a regular basis.

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

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

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

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

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

5. **Monitoring and Reporting**

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

RI Standards

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

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

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	6 March 2020
Title:	Shareholder voting highlight report
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Boufflower

Tel: 01962 847407

Email: andrew.boufflower@hants.gov.uk

Purpose of this Report

1. This report provides information on how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in.

Recommendations

2. That the RI sub-committee notes how the Pension Fund's investment managers have voted the shares in the Fund's portfolios as highlighted in this report.

Executive Summary

3. As investors in common stock (equities) the Pension Fund will have certain rights to vote on how the company it invests in is run. These include being able to vote in elections to the board of directors and on proposed operational alterations, such as shifts of corporate aims, and the right to vote on other matters such as remuneration policies and the appointment of auditors. In addition to these items, for which recommendations will be made by company management for shareholders to either agree or oppose, individual shareholders can propose their own subjects for the shareholders to vote on, but they are non-binding on the company's management in most instances.
4. Shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating. How votes are cast by the

Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held:

- Directly held equities (Acadian and Baillie Gifford's Global Alpha portfolios) will be voted in accordance with Hampshire's voting policy, which is part of its Responsible Investment policy.
- Equities directly held in the ACCESS pool (Schroders Prime and Baillie Gifford's Long-term Global Growth portfolios) will be voted in accordance with ACCESS' voting guidelines, which were agreed by the Joint Committee.
- Equities in pooled funds of external investment managers (such as UBS or Dodge & Cox) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund. Dodge & Cox report on their voting activity annually, unlike the quarterly reports of the other investment managers, and details of their voting are not included in this report.

Voting highlights

5. In order for the RI sub-committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights is contained in Appendix 1. The highlight report does not attempt to quantify the number of votes cast by the Fund's investment managers (which is significant) but focuses on providing examples of the types of issues where investment managers have voted against company management, resolutions of fellow shareholders, or on sensitive or interest issues.
6. The majority of votes cast against company management by the Fund's investment managers cover the following reasons:
 - Nominees for company directors who are not sufficiently independent, have too many other outside interests or who have a history of managing the company and ignoring shareholders' concerns.
 - Remuneration policies where the level of pay is felt to be excessive and/or short-term incentives are more valuable than long-term incentives and do not provide adequate alignment with shareholders' long-term interests.
 - 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 were not clear.
7. In all these instances voting against the company management is in line with Hampshire's or ACCESS' policy. Both policies allow for the investment manager to exercise their judgement and to not follow the policy if they can provide a suitable rationale for doing so. The highlight report shows instances where Baillie Gifford have exercised this discretion and chose to

support the company management on some of these issues, where they believe that there are compensating governance controls in place.

8. The review of voting records highlighted one instance where the Pension Fund's investment managers had voted differently on the same point; a shareholder resolution for BHP (formerly BHP Billiton, a mining company) to approve suspension of memberships of industry associations that are involved in lobbying actions felt to be inconsistent with the goals of the Paris Agreement. The investment managers (UBS, Schroders and Baillie Gifford) felt that this was a worthy action, but Schroders and Baillie Gifford chose not to support it as they were satisfied that the company management was already tackling the issue, already terminating its membership of some organisations and giving others a deadline to make changes.

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

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

Acadian (global equities)

Stock	Proposal	Vote	Rationale
Solar Capital Ltd	Elect Director David S. Wachter	With-held	Governance Committee member David Wachter for a material governance failure. The company's governing documents prohibit or restrict shareholders' ability to amend the company bylaws.
Regis	Ratify Named Executive Mgmt For Against Against Officers' Compensation	Against	The CEO's \$9.1 million front-loaded equity grant contains a rigorous share price goal, although performance is measured at the end of three years — notwithstanding that the award is intended to cover five years of annual equity grants. Such a front-loaded award inhibits the committee's ability to adjust pay based on future company performance over a relatively long period of time. Further, the committee discretionarily rewarded NEOs with additional payouts under the STI plan based on overachievement on a key internal goal that was not utilized as a separate performance metric for competitive and internal bias reasons, notwithstanding failure to achieve threshold performance on both quantitative performance metrics and an STI plan design that already places significant weight on individual performance goals.
Vital Healthcare Property Trust	Elect Andrew Evans as Director	Against	Andrew Evans presence contributes to the board being not majority independent. He has exceeded 12 years tenure on the board and is a non-independent director on a non-majority independent board.
Reit 1 Ltd	Reappoint BDO Ziv Haft as Auditors and Authorize Board to Fix Their Remuneration	Against	Audit fees are not itemized. As such, it cannot be determined if the non-audit fees are excessive.
Oritani Financial Corp	Vote on Golden Parachutes	Against	The value of payments was felt to be excessive (three times salary plus the highest bonus paid in the last three years) and whilst the payments automatically trigger upon resignation for any reason, it is expected that the CEO will re-join the new company.
Sysco	Require an Independent Board Chairman	Against	(Shareholder proposal) it was deemed that the proposal to have an independent board chairman, wasn't required because when looking at Sysco's board leadership structure, governance practices and performance generally,

			there were no significant concerns.
Oracle	Require an Independent Board Chairman	For	(Shareholder proposal) Shareholders may benefit from a board led by an independent chair who challenges and provides better oversight of management. The company exhibits ongoing executive compensation concerns, non-responsiveness to shareholders regarding compensation concerns, significant share pledging by the chair, and short-and long-term underperformance against peers, which cumulatively indicate ineffective independent board oversight. Further, the lead director role is not considered robust and may not be able to effectively counterbalance the three executive leaders. Accordingly, this non-binding proposal offers an opportunity to clarify board leadership.

Baillie Gifford – Long-term Global Growth (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Alibaba	Elect Directors	For	ACCESS guidelines recommend we oppose the election of non-independent directors where less than half of the board is independent. We are comfortable with the current board composition and therefore supported.
Alibaba	Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing as the tenure of the audit firm was over 10 years. We believe auditor tenure is an important issue however do not require a change in auditor after 10 years. We instead focus on if the company has a process in place to tender for a new auditor over a suitable timeframe.
Atlassian	Remuneration Policy	For	ACCESS guidelines recommend opposing remuneration where there are no performance targets. There was no incentive remuneration paid during the year and we are comfortable with the remuneration arrangements at the company and therefore supported.
Inditex	Remuneration Policy	For	ACCESS guidelines recommend opposing remuneration where the performance period is less than 5 years. We are comfortable with the remuneration arrangements at the company and therefore supported.

Baillie Gifford – Global Alpha (global equities)

Stock	Proposal	Vote	Rationale
Microsoft	Gender pay disclosures	For	We supported a shareholder proposal requesting that the company produce enhanced disclosure on gender pay disparities across their business.
Res Med	Executive compensation	Against	We opposed the executive compensation policy as it includes a retesting provisions which we do not believe provides alignment with shareholders.
CyberAgent	Appointment of directors	Against	We opposed the election of two outside directors and four inside directors, due to ongoing concerns over board composition.
Microsoft	Employee board representation	Against	We opposed a shareholder proposal requesting a report on employee representation at board level as we believe it to be overly prescriptive and of limited value to shareholders
Pernod Ricard	Share issue	Against	We opposed the authority to issue shares via private placement as we do not believe this is in our clients' best interests.
BHP	Approve Suspension of Memberships of Industry Associations That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement	Against	In our view, BHP is an industry leader with regard to climate action. It was the first major company to publish a detailed review of industry association membership in 2017. The subsequent decision to terminate its membership of the World Coal Association demonstrates the rigour of this process and a track record of responsiveness. The 2019 review process concluded recently and identified four organisations (including Coal21) that were only partly aligned with BHP's approach to climate and energy policy. The company has given these organisations until end August to see changes enacted. Shareholder proposal 22 pre-empts this process and effectively seeks BHP's exit from these associations before the review is completed.

UBS – passive equities

Stock	Proposal	Vote	Rationale
Goodwin	Elect John Goodwin as Member of the Audit Committee.	Against	Candidate is not considered independent and is serving on a committee that should be fully independent.

Goodwin	Approve Remuneration Policy.	Against	The level of discretion allowed by the remuneration committee within the framework of the policy is of concern.
Airport City	Reappoint Somekh-Chaikin as Auditors and Authorise Board to Fix Their Remuneration.	Against	The company has not clearly explained the ratio of non-audit fees to audit fees.
Telstra	Approve Remuneration Report.	Against	Pay frameworks where short-term incentives are more valuable than long-term incentives do not provide adequate alignment with shareholders' long-term interests.
Origin Energy	Approve Paris Goals and Targets.	Against	(Shareholder proposal) Through our engagement we have determined that the company is addressing the majority of the issues raised, via its current commitments to cut scope 1 and scope 2 GHG emissions by half by 2032 and reduce scope 3 emissions by 25 per cent by 2032. In addition, the company has pledged to exit carbon coal generation by 2032 and to significantly grow renewables. They report according to the TCFD recommendations with targets approved by the Science Based Targets initiative for GHG emissions reductions. The matter raised related to executive remuneration is better addressed through dialogue.
City of London Investment Group	Amend Articles of Association.	Against	We will not support amendments to articles which are against shareholders' interests.
Bendigo and Adelaide Bank	Elect David Foster as Director.	Against	The nominee holds a significant number of positions on the boards of listed companies, raising concerns over their ability to commit sufficient time to the role.
Coles	Improve Human Rights Management in Fresh Food Supply Chains.	Against	(Shareholder proposal) The company has clear disclosure regarding the topics raised, including ethical supplier policies and practice management, and oversight in place to address supply chain risks.
Oracle	Elect Director Naomi O. Seligman.	Against	Member of the Remuneration Committee. The company has a long history of significant shareholder dissent of executive pay and the Committee has shown insufficient responsiveness.

Campbell Soup	Ratify Pricewaterhouse Coopers LLP as Auditors.	Against	The tenure of auditor used by the company exceeds 20 years.
BHP	Approve Suspension of Memberships of Industry Associations That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement	For	(Shareholder proposal) Engaging from within trade associations is a perfectly legitimate action but this does not seem to have brought any results with certain industry associations.
Insurance Australia	Approve Fossil Fuel Investment Exposure Reduction Targets.	For	We support proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.
Westpac Banking	Approve Disclosure of Strategies and Targets for Reduction in Fossil Fuel Exposure.	For	We support proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.

Schroders (UK equities)

Stock	Proposal	Vote	Rationale
Assura	Remuneration policy	Against	We opposed the quantum of increase across all elements of pay.
First Group	Re-elect Jim Winestock as Director	Against	We opposed the appointment in the best interests of the future of the company.
BHP	Approve Suspension of Memberships of Industry Associations	Against	(Shareholder resolution) While we do believe there could be potential inconsistencies between the Paris climate goals and with the work of some of BHP's trade associations, we are encouraged that BHP has already engaged,

	That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement		for example, to change the constitution of Coal21 to be better aligned. We therefore believe it is logical to await the outcome of the company's forthcoming review, rather than support a resolution calling for memberships to be suspended.
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