

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting</b>	Hampshire Pension Fund Responsible Investment Sub-Committee
<b>Date and Time</b>	Friday, 5th March, 2021 at 10.00 am
<b>Place</b>	Virtual Teams Meeting
<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 is being held remotely and will be recorded and broadcast live via the County Council's website.

## AGENDA

### 1. APOLOGIES

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. MINUTES (Pages 5 - 8)

To confirm the minutes of the last meeting on 20 October 2020.

### 4. DEPUTATIONS

To receive any deputations.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6. SCHEME MEMBER COMMUNICATION AND ANNUAL RESPONSIBLE INVESTMENT UPDATE FOR SCHEME MEMBERS (Pages 9 - 14)**

To receive a report from the Director of Corporate Resources-Corporate Services updating the Sub-Committee on communications to and from scheme members since its last meeting on 20 October 2020 and seeking approval for the Annual Responsible Investment Update for scheme members.

**7. SHAREHOLDER VOTING HIGHLIGHT REPORT (Pages 15 - 32)**

To receive a report from the Director of Corporate Resources-Corporate Services providing information regarding the Pension Fund's equity investment managers' engagement with the management of the companies the Pension Fund invests in, including how the investment managers have voted on behalf of the Fund during the period July – December 2020.

**8. TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) (Pages 33 - 46)**

To consider a report from the Director of Corporate Resources-Corporate Services highlighting the recommendations of the TCFD and a draft disclosure report from the Hampshire Pension Fund reporting against the TCFD recommendations.

**9. 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.

**10. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 47 - 48)**

To confirm the exempt minutes of the meeting held on 20 October 2020.

**11. ACADIAN'S MANAGED VOLATILITY PORTFOLIO (Pages 49 - 94)**

To consider a report from the Director of Corporate Resources-Corporate Services proposing a change to the Pension Fund's investment in Acadian's Managed Volatility Global Equities Portfolio to reduce the carbon footprint of the investments in the 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 observe the public sessions of the meeting via the webcast.**

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AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually on Tuesday 20 October 2020.

Chairman:

\* Councillor M. Kemp-Gee

Vice-Chairman:

\*Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

\* B. Tennent

A. Joy

Employer Representatives (Co-opted members):

\* Councillor C. Corkery (Portsmouth Council)

Scheme Member Representatives (Co-opted members):

Mr N. Wood (active scheme member representative)

\*present

25. **APOLOGIES FOR ABSENCE**

Cllr Joy and Mr Wood sent their apologies.

26. **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.

27. **ELECTION OF A CHAIRMAN**

Cllr Kemp-Gee was elected as Chairman.

28. **ELECTION OF A VICE-CHAIRMAN**

Cllr Thacker was elected as Vice-Chairman.

29. **CONFIRMATION OF MINUTES**

The minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

30. **DEPUTATIONS**

No deputations were received.

31. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reminded the members that the sub-committee needed 3 members to be quorate.

32. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 8 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning Environmental, Social or Governance (ESG) issues. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to climate change, including a deputation to the Pension Fund Panel and Board, the correspondence to date has been received from a very small minority of the nearly 179,000 scheme members.

The sub-committee noted the public interest in ESG issues in relation to the Pension Fund's investments and expressed a desire that the Pension Fund is as transparent as possible in its reporting of these issues, whilst respecting the commercial interest of the Pension Fund and its investment managers and consultants.

33. **SHAREHOLDER VOTING HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 9 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. 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 between equities directly held by the Pension Fund, held in the ACCESS pool, or in pooled funds of external investment managers. Dodge & Cox's portfolio, which is invested in via an external pooled funds has more limited reporting than the Pension Fund's other investment managers as any additional information that Dodge & Cox provide would also have to be made available to all investors and their

regulator. This will improve when Dodge & Cox move to a segregated portfolio within the ACCESS pool, as they have agreed.

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
- to improve the empowerment of investors, 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.

The full details of how votes have been cast for the Pension Fund is published on its RI webpage <https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment>

34. **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.

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

The exempt minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

36. **ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENT**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 12 in the Minute Book) introducing a report from the consultants MJ Hudson Spring who were commissioned to assess how Environmental, Social and Governance (ESG) issues are being managed in the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

37. **BAILLIE GIFFORD GLOBAL ALPHA PORTFOLIO**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 13 in the Minute Book) to propose a change to the Pension Fund's investment in Baillie Gifford's Global Alpha global equities portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]



## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Responsible Investment Sub-Committee
<b>Date:</b>	5 March 2021
<b>Title:</b>	Scheme Member Communication
<b>Report From:</b>	<i>Deputy Chief Executive and Director of Corporate Resources</i>

**Contact name:** Rob Sarfas

**Tel:** 0370 779 6896

**Email:** rob.sarfas@hants.gov.uk

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

1. The purpose of this report is to update the sub-committee on communication to and from scheme members since its last meeting in October 2020.

#### **Recommendations**

2. That the sub-committee approves the Annual Update on RI activities to be published to scheme members.
3. That the communication to and from scheme members on RI issues is noted.

#### **Executive Summary**

4. The sub-committee's terms of reference include the actions:
  - 'to engage directly and indirectly with scheme members and employers to hear representations concerning Environmental, Social or Governance issues as appropriate',
  - 'to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders'.
5. Since the sub-committee's last meeting in October 2020 the Pension Fund has received two deputations to the Pension Fund Panel and Board and received a number of ad-hoc pieces of correspondence.

6. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to climate change, the correspondence to date has been received from a very small minority of the nearly 179,000 scheme members.
7. In reviewing the suitability of its budget and resources at its meeting in December 2020, the Pension Fund Panel and Board agreed to a budget of £20,000 per annum to enhance communication with stakeholders.

### **RI Annual Update**

8. The Pension Fund's first RI Annual Update was published in 2020. The update was printed and included with pensioners' payslips (sent to all 43,700 pensioners in April 2020), published on the Pension Fund's website, and included in the Pension Fund's Annual Report in July 2020.
9. The update report for 2021 has been written taking into account feedback received on the report last year and subsequent discussions at the Pension Fund Panel and Board, with a focus on making the report more accessible to non-specialist readers. A small amount of the budget agreed by the Panel and Board to enhance communications has been used to commission the County Council's Communications and Marketing teams to assist in this process. The draft is included as Annex 1 to this report for the sub-committee's approval.

### **Deputations**

10. In the last 6 months two deputations have been received on RI, both on the subject of investments that relate to climate change. In November 2020 and February 2021 different representatives of the Dirty Money Campaign spoke to the Panel and Board. These deputations called on the Pension Fund to take a number of actions, including taking action to manage the Fund's investments in line with the Paris Agreement and a maximum 1.5 degree climate increase scenario and asking all members of the ACCESS pool to become members of the Net Zero Asset Owners Alliance.

### **Other correspondence**

11. There have also been four other pieces of correspondence from scheme members. These have been in relation to the risk of climate change and encouraging the Pension Fund to commit to the Task Force on Climate Change Financial Disclosure (TCFD). TCFD is included elsewhere on this agenda. This correspondence has included follow-up questions from a representative of the Hampshire Pension Fund Action Group, who has previously made a deputation to the Pension Fund Panel and Board.

**REQUIRED CORPORATE OR 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 of the ongoing management of the Hampshire Pension Fund.</b>	

**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 ASSESSMENTS:**

### **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 Pension Fund

## Responsible Investment Update 2021

### Why the Hampshire Pension Fund makes investments

The Hampshire Pension Fund has over 178,000 members. It makes investments so that it can pay pensions to these members when they reach retirement age. Some members will already be retired and receiving their pensions, whereas others will just be starting out in their careers. The Pension Fund employs a specialist (known as an actuary) to work out how much money will be needed to pay these pensions. This indicates what investment returns are likely to be needed each year. The Pension Fund Panel and Board then sets an investment strategy with the aim of achieving these returns. The Pension Fund is currently valued at about £9bn.

The Pension Fund Panel and Board has decided to invest in multiple different types of investments (known as asset classes) so that not all of its eggs are in one basket. It has appointed external specialists in each asset class to manage these investments.

### Responsible Investment

Responsible investment is about making sure environmental, social and governance (ESG) factors are part of your investment decision making process. Once you decide to buy an investment, it's also about how you act as the owner of that investment.

This includes things like climate change, use of resources, sustainability, pollution, working conditions, child labour, slavery, inclusion and diversity, health and safety, executive pay, board composition, company governance, bribery and corruption, and unjust tax strategies.

The Pension Fund believes that Responsible Investment (RI) is an important part of achieving what the Fund is here to do and that ESG factors can have a positive or negative effect on the Pension Fund and its investments.

#### The Pension Fund:

- **Has an RI policy, which is part of its investment strategy.** This explains how ESG factors will be considered when making investment decisions for different asset classes and how the Pension Fund expects its investment managers to talk to companies about ESG issues and take part in shareholder voting.
- **Has set up a group to focus on Responsible Investment.** The RI sub-committee is made up of members of the Panel and Board and makes recommendations to the Panel and Board.
- **Is a signatory to the UN Principles for Responsible Investment (PRI)** which sets out six principles for responsible investors to follow.
- **Is a signatory to the UK Stewardship Code** which is about how investors should act when making and owning investments.
- **Asked a specialist RI consultant to review the Fund's investments** which gave the Panel and Board an independent opinion on the effectiveness of its current investment managers and suggestions for how to challenge them to do more on RI.
- **Provides training for the Panel and Board on RI**

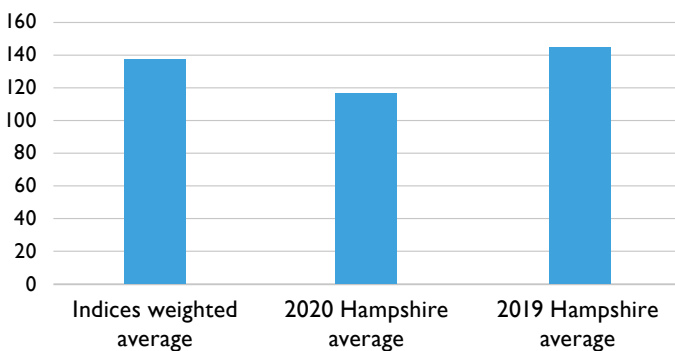
## Addressing climate change concerns

With climate change set to have a large impact on all of us over time, the Pension Fund must make sure this is reflected in how it invests.

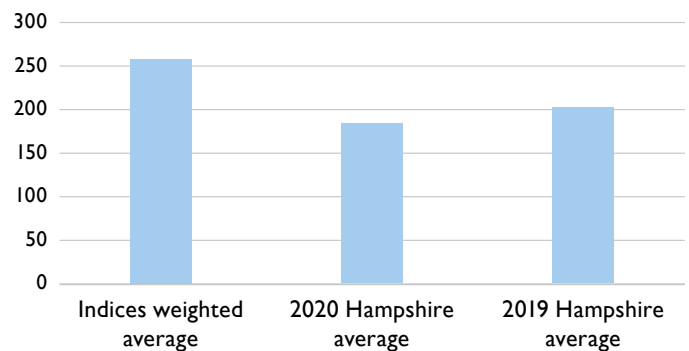
### The Pension Fund:

- Holds its portfolio of global passive shares (that track world stock markets) in a Climate Aware Fund, which skews its investments towards companies in each sector that have the best environmental credentials.
- Has a carbon footprint for its largest shares portfolio that is only 6% of the world average.
- Has agreed to change one of its actively managed equity (shares) portfolios so that it is aligned with the climate change goals of the Paris Agreement.
- Is talking to its other equity managers about greener options for their funds.
- Continues to challenge all its investment managers to improve their reporting on carbon emissions and to justify their decisions.
- Has agreed to use GRESB benchmarking to assess the ESG performance of its property portfolio.
- Holds a global infrastructure portfolio where 14% of commitments are to renewable energy investments.
- Can measure the carbon emissions of 53% of its investments (50% last year).
- Has lower carbon emissions for these investments than the world average (using the relevant indices for its investments as the benchmark).

### Carbon footprint (tCO<sub>2</sub>e/£m invested) 31 December 2020



### Carbon intensity (tCO<sub>2</sub>e/£m revenue) 31 December 2020



The impact on emissions can be measured either as the CO<sub>2</sub> emissions relative to the size of companies (carbon footprint) or CO<sub>2</sub> emissions relative to how much revenue companies generate (carbon intensity).

### Further actions

Other actions that the Pension Fund is taking as a responsible investor include:

- Reporting on RI activity on its website and improving reporting and transparency.
- Regularly reviewing shareholder voting and company engagement conducted by its investment managers.
- Challenging its investment managers to give concrete examples of how they are considering ESG factors when making decisions.

### Your thoughts

We would love to hear your thoughts on how we are doing as a responsible investor and how we're acting on your behalf as scheme members.

Please email us at

**[responsible.investment@hants.gov.uk](mailto:responsible.investment@hants.gov.uk)**

or write to

Hampshire Pension Services, The Castle,  
Winchester, Hampshire, SO23 8UB

You can also contact your Pension Fund Panel and Board scheme member representative for pensioners, Dr Cliff Allen, [cliffallen203@aim.com](mailto:cliffallen203@aim.com)

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Responsible Investment Sub-Committee
<b>Date:</b>	5 March 2021
<b>Title:</b>	Shareholder voting highlight report
<b>Report From:</b>	<i>Deputy Chief Executive and Director of Corporate Resources</i>

**Contact name:** Gemma Farley

**Tel:** 0370 779 4704

**Email:** Gemma.farley@hants.gov.uk

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

1. This report provides information regarding the Pension Fund's equity investment managers' engagement with the management of the companies the Pension Fund invests in, including how the investment managers have voted on behalf of the Fund during the period July – December 2020.

#### **Recommendations**

2. That the Pension Fund Responsible Investment Sub-Committee notes how the Pension Fund's investment managers have voted the shares in the Fund's portfolios and engaged with the management of these companies as highlighted in this report.

#### **Executive Summary**

3. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code and as such recognises its role of promoting best practice in stewardship, which is considered to be consistent with seeking long term investment returns. As a Pension Fund whose investments are externally managed, much of the day-to-day responsibility for implementing stewardship on behalf of the Fund is delegated to the Fund's investment managers, including engagement and casting shareholder votes for its equity investments, and the expectations of the investment managers are set out in the Fund's Responsible Investment Policy as part of the Investment Strategy Statement.
4. The Fund recognises that there are different expectations for its investment managers in terms of how investment managers engage with companies,

but as a minimum all are expected to engage with invested companies 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. In addition, the Fund's active investment managers are required to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. Paragraphs 12-20 of this report provide examples of how the Fund's active investment managers have engaged with the management of the companies the Fund is invested in.

5. 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, as well as 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.
6. 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.
7. 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 portfolio) were voted in accordance with Hampshire's voting policy, which is part of its Responsible Investment policy. Following the transition of Acadian's portfolio and Baillie Gifford's Global Alpha portfolio to ACCESS in November and December 2020 respectively, the Fund has no directly held equities.
  - Equities directly held in the ACCESS pool (Baillie Gifford's Long-term Global Growth portfolio) will be voted in accordance with ACCESS's 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.
8. Dodge & Cox report on their voting activity annually, unlike the quarterly reports of the other investment managers. As this information is reported annually, and was reported in October 2020, Appendix 1 does not contain any voting information for Dodge & Cox.



9. Dodge & Cox have agreed with the investors in the ACCESS pool to move to a segregated portfolio and are currently implementing the necessary changes with the pool Operator, Link. This will enable Dodge & Cox to improve the frequency of reporting and level of information provided on shareholding voting, in line with the other investment managers in the ACCESS pool.
10. As a result of the Pension Fund's policy there is a risk that its investment managers could cast their votes differently for the same shareholder resolution, and examples of these are described in paragraph 24 onwards. However, the Fund believes its current policy remains the best approach as it enables the Fund's investment managers to cast votes in line with the portfolio investment strategy that led to holding the stock.
11. The Pension Fund publishes its investment manager's voting reports online:  
  
<https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment>

### **Engagement highlights**

12. In order for the Responsible Investment (RI) Sub-Committee to scrutinise the engagement activity of the Pension Fund's investment managers, the following paragraphs provide a summary of engagement highlights from 2020.

#### **Acadian**

13. Acadian have had ongoing discussions with Kaiser Aluminium and Reliance Steel and Aluminium throughout 2020 regarding the disclosure of information regarding their carbon emissions and strategies to reduce emissions. Acadian has also engaged with these companies relating to their safety performance. Initially the companies noted that data would not be disclosed. However since initial discussions, disclosure has improved to some degree but unfortunately are still not to the level of detail that Acadian hopes for. The companies have both stated that additional disclosure is being reviewed and evaluated and Acadian continues to engage on these issues.
14. Acadian engaged with gold miners, Evolution Mining, Centerra Gold, Royal Gold and Materion, on both issues of climate as well as safety. While existing disclosure was lacking, most companies were able to provide details of the required information and commented that efforts were being taken to build a sustainability team and/or more detailed sustainability reporting.

Management commented that Acadian's requests for information were useful to help determine their future reporting frameworks.

### **Baillie Gifford: Long Term Global Growth**

15. Baillie Gifford's relationship with Amazon has strengthened over the years since they first took a holding for the Long Term Global Growth portfolio in 2004. During this period, Baillie Gifford has addressed a range of ESG issues, including compensation, succession planning, data privacy, taxation, environmental sustainability, diversity and worker rights. Notable actions by the company have included, for example, the commitment to meet its obligations to the Paris Agreement on climate change a decade early, its decision to raise the minimum wage for its fulfilment centre workers, and a well-prepared leadership transition scheduled for 2021 which will see founder Jeff Bezos become Executive Chair and Andy Jassy become CEO. Whilst such steps are encouraging, Baillie Gifford believes Amazon can go further to improve its approach to social issues. In 2019, Baillie Gifford visited a local fulfilment centre to help them understand the environment in which warehouse workers operate, and Baillie Gifford spoke with Amazon's senior independent director to encourage greater disclosure and better practices. During a further meeting in 2020, Amazon's new head of ESG engagement acknowledged shortcomings in the company's disclosures on social issues (specifically employee health and safety) and signalled that they wish to engage with Baillie Gifford on this topic. This will remain an ongoing focus for engagement activities which Baillie Gifford hopes will result in further tangible improvements in transparency and practice.
  
16. Some years after first taking a holding in Tesla for the Long Term Global Growth portfolio in 2013, Baillie Gifford felt the company was not doing enough to publicly disclose relevant company information. Most notably, Tesla was not publishing standard firm-wide health and safety data; meanwhile, external sources suggested injury rates were much higher than industry average. In 2018, Baillie Gifford therefore arranged a meeting with Laurie Shelby, Head of Environmental, Health and Safety, at the company's Fremont factory – her first meeting with shareholders. Baillie Gifford were encouraged by the policies and practices being introduced and Baillie Gifford reiterated their calls for greater public disclosure. In 2019, Tesla published its inaugural Impact Report which offered a comprehensive review of the impacts of its operations and products, including healthy and safety data. Tesla's second Impact Report published in 2020 went even further in its disclosures and encouragingly it reported that its injury rate had fallen below industry average. The company has since invited Baillie Gifford's suggestions for next year's report. Baillie Gifford advised that more detail on operational emissions, corresponding reduction strategies, supply chain auditing, and additional health and safety data would be useful for shareholders, and their dialogue is ongoing.

## **Baillie Gifford: Global Alpha**

17. A conversation with the founder and CEO, Susumu Fujita, of CyberAgent reassured Baillie Gifford that this Japanese digital platform business is improving its governance. Baillie Gifford had previously written to the company with their concerns at the lack of board independence. On the call Baillie Gifford were told that steps are being taken to address this, with the former CEO of Nestle Japan appointed to the board and further independent hires in the pipeline. Baillie Gifford are encouraged that CyberAgent has been receptive to their advice.
18. Baillie Gifford met with AJ Gallagher's executive management to discuss its tax strategy. Baillie Gifford have engaged with the company on this since 2017. AJ Gallagher purchased clean coal credits that substantially lowered the company's effective tax rate over a number of years. While acknowledging the positive impact clean coal credits had on encouraging lower carbon, nitrogen and sulphur oxide emissions, Baillie Gifford look for companies to consider corporation tax as a social licence to operate rather than a cost they seek to minimise. The company agrees with this and is committed to a fair taxation policy. Baillie Gifford are encouraged that their patient engagement on tax has encouraged AJ Gallagher's to change its approach.

## **Dodge & Cox**

19. When evaluating Television Broadcasts (TVB), capital allocation and governance were important considerations to Dodge & Cox. In May of 2019, Dodge & Cox spoke with TVB management and expressed their dissatisfaction with the company's treasury function. They discussed revamping the company's decision-making process and control functions for cash management. These discussions combined with the qualified opinions on the financial statements that TVB received in 2018 and 2019 led Dodge & Cox to vote against management's proposal to "Accept Financial Statements and Statutory Reports" at the 2019 and 2020 annual meetings. Dodge & Cox have continued to engage with the company on these subjects.
20. In 2019 – 2020, Dodge & Cox spoke extensively with the HP Inc. (HPQ) board and management about the potential merger with Xerox. Dodge & Cox talked at length with the company about capital allocation, shareholder value, and strategy. The proposal from Xerox along with HPQ's engagement with their shareholders led HPQ to adopt a new Shareholder Return Program which focused on increasing value to their shareholders. This was something Dodge & Cox were very pleased with as they had many focused conversations on this topic. Additionally, when HPQ adopted a Poison Pill, Dodge & Cox spoke with them about the reasons behind the decision. Subsequently, Xerox announced that they no longer intended to acquire HPQ and Dodge & Cox were surprised that HPQ kept the Poison Pill in

place. Dodge & Cox expressed their dissatisfaction around the adopted Poison Pill and communicated their expectations around messaging and removal of this Pill. HPQ removed the Poison Pill from their by-laws well before the Pill expired.

## **Voting highlights**

21. In order for the RI Sub-Committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights for the period July – December 2020 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 topical issues.
22. 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.
  - To improve the empowerment of investors by reducing threshold percentages required to allow the calling of special meetings and improving the existing proxy access right.
  - 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.
23. In all these instances voting against the company management is in line with Hampshire's or ACCESS's policy. Both policies do, however, 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 the sorts of instances where Baillie Gifford have exercised this discretion and chosen to support the company management on some of these issues, where they believe that there are compensating governance controls in place.
24. The review of voting records has highlighted instances where the Pension Fund's investment managers have voted differently on the same point; examples of these are in Table 1.

<b>Company</b>	<b>Proposal</b>	<b>Proponent</b>	<b>Acadian</b>	<b>Baillie Gifford</b>	<b>UBS</b>
Microsoft Corporation	Ratify Deloitte & Touche LLP as Auditors	Mgmt	Against	For	For
Oracle Corporation	Ratify Ernst & Young LLP as Auditors	Mgmt	Against	Not held	For
	Various elect directors	Mgmt	For	Not held	Withhold
Tesla, Inc.	Elect Director Elon Musk	Mgmt	Not held	For	Against
	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	Not held	For	Against
	Additional Reporting on Human Rights	SH	Not held	Against	For

24. Acadian voted against the management on ratifying Deloitte and Touche LLP as Auditors at the Microsoft meeting in December 2020 because the auditor tenure had exceeded 10 years. UBS voted for the proposal due to the fact that UBS amended their voting guidelines in 2020 such that they will vote against audit firms if they do not rotate their audit partner in line with market practice, as opposed to voting against the audit firm after a base service period of greater than 20 years (which was their previous policy). As both companies meet UBS's current requirement for partner rotation, they did not determine that a vote against was warranted.

25. Acadian voted against the management on ratifying Ernst & Young LLP as Auditors at the Oracle meeting in November 2020 again because the auditor tenure had exceeded 10 years. UBS voted for the proposal in line with the voting policy outlined in paragraph 24.

26. Within the same meeting, Acadian voted for a number of directors to be elected, whilst UBS withheld their vote. UBS withheld their vote on the election of two directors who are members of the Compensation Committee, and this was because according to UBS's voting guidelines there had been insufficient responsiveness to continued low support for the say-on-pay vote. Within UBS's voting guidelines it is expected that companies who have received a significant vote against their compensation (>25%) of votes cast to make progress over time to resolve the issues raised by investors. Oracle received votes against their compensation in 2017 (50% vote against say-on-pay), 2018 (46% vote against) and 2019 (42% vote against). UBS's policy states that this indicates that the company are not resolving the matters raised and therefore UBS will vote against those individuals on the board with responsibility (i.e. those on the compensation committee). The vote for 2020 again received a 41% vote against by shareholders.

27. Acadian voted for these proposals as following their review of the Compensation Committee's responsiveness to the say-on-pay vote, although there has been low support for say-on-pay proposals for seven consecutive years, they found that the Compensation Committee has disclosed shareholder engagement efforts and the feedback received, and this has significantly improved year-over-year. Further, the board made a commitment to maintain the existing terms of the outstanding front-loaded awards in response to recent shareholder feedback. The committee has therefore demonstrated sufficient responsiveness and Acadian felt that support for Compensation Committee members was warranted.
  
28. At Tesla's annual meeting in September 2020, Baillie Gifford chose to support the election of Director Elon Musk, which UBS voted against this proposal. UBS voted against as they believed that the amount of shares pledged by this Director represents a material risk to shareholders. Baillie Gifford voted for this proposal as they are comfortable with this director candidate, although ACCESS guidelines recommend investment managers oppose the election of an executive director where there is no senior independent director. Investment managers are required to comply or explain in regards to the ACCESS voting guidelines.
  
29. Within this same meeting, UBS chose to vote against the advisory vote to ratify named executive officers' compensation as they felt that the aggregate level of compensation was excessive. Baillie Gifford voted for this proposal, which is within ACCESS's voting guidelines. In addition there was a shareholder proposal at the meeting to provide additional reporting on human rights. UBS voted for this proposal as they are supportive of resolutions seeking reports from issuers on specific issues on the condition these are not overly demanding or beyond the remit of the company's reporting. Baillie Gifford voted against this proposal as they think that Tesla's current policies and practices are reasonable and improving, making this proposal unnecessary.

**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.



**Acadian (global equities)**

Stock	Proposal	Vote	Rationale
Carter Bank & Trust	Authorise New Class of Preferred Stock	Against	A vote against this proposal is warranted because the board has not specifically stated that the shares may not be used for antitakeover purposes in the future.
Ennis Inc	Elect Directors	Against	A vote against incumbent director nominees Keith Walters and Gary Mozina is warranted because the company demonstrated only mixed responsiveness to shareholder concerns following last year's failed say-on-pay proposal.
Ennis Inc	Remuneration	Against	A vote against this proposal is warranted because the compensation committee demonstrated only mixed responsiveness to shareholder concerns follow last year's failed say-on-pay proposal.
General Mills, Inc.	Ratify KPMG LLP as Auditors	Against	A vote against is warranted since the auditor tenure exceeds 10 years.
Marshall Motor Holdings plc	Accept Financial Statements and Statutory Reports	Against	A vote against this resolution is warranted because of the following reasons: <ul style="list-style-type: none"> <li>- The composition of the Remuneration Committee is not compliant with recommended guidelines;</li> <li>- Awards granted to the Executive Directors during the year under review do not vest subject to the achievement of performance hurdles; and</li> <li>- The Remuneration Committee granted discretionary awards during the year.</li> </ul>
Marshall Motor Holdings plc	Elect Directors	Against	A vote against the re-election of Christopher Walkinshaw is warranted because a potential independence issue has been identified and he currently sits on the Audit Committee, and the composition of the Committee does not adhere to UK best practice recommendations for a company of this size.
Microsoft Corporation	Report on Employee Representation on the Board of Directors	Against	A vote against a shareholder resolution. A vote against this proposal is warranted. The company's current board framework and disclosures appear to be providing it with adequate oversight of workforce issues. In addition it is unclear how the requested report may meaningfully address risks related to the company's workforce.

Neto M.E. Holdings Ltd	Reappoint BDO Ziv Haft as Auditors and Authorise Board to Fix Their Remuneration	Against	A vote against this is warranted since the auditor's tenure exceeds is undisclosed.
Oracle Corporation	Report on Gender Pay Gap	For	A vote for a shareholder resolution. A vote for this proposal is warranted as shareholders would benefit from additional information allowing them to measure the progress of the company's diversity and inclusion initiatives.
Oracle Corporation	Require Independent Board Chair	For	A vote for a shareholder resolution. A vote for this proposal is warranted. Ongoing concerns regarding the company's compensation practices, the significant pledging by the company's chair, long-term underperformance against peers, and the non-robust lead director role suggest that shareholders may benefit from a board led by an independent chair who could provide better oversight of management.
The Procter & Gamble Company	Report on Efforts to Eliminate Deforestation	For	A vote for a shareholder resolution. A vote for this resolution is warranted as shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation.
The Procter & Gamble Company	Publish Annually a Report Assessing Diversity and Inclusion Efforts	For	A vote for a shareholder resolution. A vote for this resolution is warranted as reporting quantitative and comparable diversity statistics would allow shareholders to better assess the effectiveness of the company's diversity initiatives and its management of related risks.
Vienna Insurance Group AG	Ratify KPMG Austria GmbH as Auditors for Fiscal 2021	Against	A vote against the ratification of KPMG as the company's audit firm is warranted given that the non-audit fees are 53.7% of the total fees received by the audit firm during the fiscal year, raising substantial doubts over the independence of the auditor.
Vienna Insurance Group AG	Approve Remuneration Policy	Against	A vote against this resolution is warranted because: <ul style="list-style-type: none"> <li>- The proposed remuneration policy contains significant scope for the award of discretionary payments. Such payments represent a serious breach of good remuneration practices and falls short of market best practice standards.</li> <li>- The policy does not contain a real long-term oriented compensation component.</li> </ul>

Village Super Market, Inc	Elect Directors	Withhold	A withhold vote is warranted since the Chairman has failed to establish gender diversity on the board.
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**Baillie Gifford – Long-Term Global Growth (global equities) (ACCESS)**

Stock	Proposal	Vote	Rationale
HDFC Corp	Elect Director(s)	For	ACCESS guidelines recommend we oppose the election of an executive director where there is no senior independent director. We are comfortable with this director candidate and therefore supported.
Indetix	Remuneration – Say on Pay	For	ACCESS guidelines recommend opposing remuneration where the performance period is less than five years. We are comfortable with the remuneration arrangements at the company and therefore supported.
NetEase.com ADR	Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing as the tenure of the audit firm was over ten years. We believe auditor tenure is an important issue however do not require a change in auditor after ten years. We instead focus on if the company has a process in place to tender for a new auditor over a suitable timeframe.
Pinduoduo Inc ADR	Elect Director(s)	For	ACCESS guidelines recommend we oppose the election of the board chair where there is no senior independent director. We are comfortable with this director candidate and therefore supported.
Tesla Inc	Shareholder Resolution - Governance	Against	We opposed a shareholder proposal requesting the company amend its approach to marketing and advertising. This proposal seeks to micromanage a part of Tesla's business which is best looked after by the management team.
Tesla Inc	Shareholder Resolution - Governance	For	We supported a shareholder proposal to eliminate supermajority voting requirements from the company's bylaws and to adopt a simple majority voting standard. We think this change is in shareholders' best interests.
Tesla Inc	Shareholder Resolution - Social	For	We supported a shareholder proposal requesting a report on the company's use of arbitration to resolve employee disputes. We think additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.

**Baillie Gifford – Global Alpha (global equities)**

Stock	Proposal	Vote	Rationale
BHP Group PLC	Suspend membership from certain trade associations due to misalignment with the approach to climate change	Against	We opposed a shareholder resolution to suspend the company's membership from certain trade associations where there is a misalignment with the approach to climate change. We think the company has demonstrated responsiveness and progress on this issue and do not think this resolution warrants support at this time.
Estee Lauder	Remuneration	Against	We opposed the executive compensation policy as the company granted special equity awards during the year which we do not believe are aligned with shareholders' best interests.
Just Eat Takeaway.com	Remuneration	Against	We opposed the new remuneration policy for the incoming Grubhub CEO Matthew Maloney due to concerns around the structure of the long term incentive and severance plans.
Microsoft	Elect Directors	Against	We opposed a shareholder resolution requesting a report on employee representation on the board of directors as we are satisfied that the company's existing director selection and election process is appropriate to maintain a competent board to oversee the business.
Tesla Inc	Eliminate supermajority voting requirements	For	We supported a shareholder proposal to eliminate supermajority voting requirements from the company's bylaws and to adopt a simple majority voting standard. We think this change is in shareholders' best interests.

## UBS – passive equities

Stock	Proposal	Vote	Rationale
51job, Inc	Elect Directors	Against	We will not support the election of the Chair of the Nomination Committee where there are no female directors on the board.
ABB India Limited	Elect Directors	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.
Aberdeen Standard Asia Focus PLC	Elect Directors	Against	Candidate is not considered independent and is serving on a committee that should be fully independent.
Aena S.M.E. SA	Approve Instructions to the Board to Present the Climate Action Plan at the 2021 AGM and Updated Climate Action Reports at the AGM that May be Held as from 2022 (Inclusive) and to Submit them to a Consultative Vote as a Separate Agenda Item	For	A vote for a shareholder resolution. 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.
Alstom SA	Remuneration	Against	Regarding the approval of the remuneration policy of the Chairman and CEO. Yearly pension contribution rates exceed 30% of salary and are considered excessive.
Bangkok Dusit Medical Services Public Co. Ltd.	Elect Directors	Against	We will not support any directors convicted on market misconduct, fraud, corruption and accounting manipulation.

BHP Group Limited	Approve Suspension of Memberships of Industry Associations where COVID-19 Related Advocacy is Inconsistent with Paris Agreement Goals	Against	A vote against a shareholder resolution. Following a similar proposal in the previous year the company implemented a set of new procedures in August 2020 that aim to clarify the company's stance to industry associations. Therefore, this proposal was not deemed necessary as the company has made progress in addressing shareholder concerns.
Broadridge Financial Solutions, Inc.	Report on Political Contributions Disclosure	For	A vote for a shareholder resolution. We will not support company proposals allowing companies to make political donations and will support shareholder proposals requiring companies to be transparent concerning such donations.
FedEx Corporation	Report on Integrating ESG Metrics Into Executive Compensation Program	For	A vote for a shareholder resolution. A report on the inclusion of ESG criteria in executive pay would be in the interest of shareholders, given the Company's exposure to ESG risk and lack of non-financial criteria in its current pay framework.
Korea Electric Power Corp.	Elect Directors	Against	We are concerned by the company's approach to managing its climate risk. It is our view that the board has overall responsibility for insufficient progress in this regard.
Oracle Corporation	Report on Gender Pay Gap	For	A vote for a shareholder resolution. Oracle lags peers on diversity and pay fairness reporting. Shareholders would benefit from additional information allowing them to measure the progress of the company's diversity and inclusion initiatives.
Ted Baker Plc	Accept Financial Statements and Statutory Reports	Against	We will not support financial accounts where the Company has failed to publish its accounts on time or there are strong concerns relating to their accuracy or reliability.
The Procter & Gamble Company	Report on Efforts to Eliminate Deforestation	For	A vote for a shareholder resolution. We will support proposals that seek to promote greater disclosure and transparency in corporate environmental policies as long as: a) the issues are not already effectively dealt with through legislation or regulation; b) the company has not already responded in a sufficient manner; and c) the proposal is not unduly burdensome or overly prescriptive.

The Procter & Gamble Company	Publish Annually a Report Assessing Diversity and Inclusion Efforts	For	A vote for a shareholder resolution. We are supportive of resolutions seeking reports from issuers on specific issues on the condition these are not overly demanding or beyond the remit of the company's reporting.
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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Hampshire Pension Fund Responsible Investment Sub-Committee
<b>Date:</b>	5 March 2021
<b>Title:</b>	Task Force on Climate-Related Financial Disclosure (TCFD)
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Andrew Bouflower

**Tel:** 0370 779 6896

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

#### Purpose of this Report

1. This report highlights the recommendations of TCFD and a draft report from the Hampshire Pension Fund reporting against the TCFD recommendations.

#### Recommendations

2. That the report is noted and the draft TCFD disclosure report is agreed for inclusion in the Pension Fund's Annual Report to be published in July 2021.

#### TCFD recommendations

3. TCFD is a global, private sector led group first assembled in December 2015 at the instigation of the international Financial Stability Board (FSB). The FSB established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. The TCFD disclosure recommendations are structured around the following four thematic areas and are summarised in Appendix 1.

**Figure 1: Core elements of recommended climate-related financial disclosures**



### **Department for Work and Pensions (DWP) Consultation: Taking Action on Climate Risk**

4. In August 2020 DWP published a consultation aiming to ensure that pension funds follow the TCFD disclosure recommendations, which it has published a response to in January 2021 with further consultation questions. The consultation recommendations are broken down into proposals for different size pension funds, with the largest set for those over £5bn, who would be required to adopt the full reporting first.
5. The Local Government Association have confirmed that the DWP consultation will not apply to LGPS funds like Hampshire, however it is expected that the Ministry of Housing, Communities and Local Government (MHCLG) will publish similar proposals once the DWP consultation closes and amendments to the Pensions Bill are finalised. In preparation for this it is recommended that the Hampshire Pension Fund produces a disclosure report against the TCFD recommendations. This will follow the good practice already adopted by a small number of other LGPS funds. Hampshire's draft TCFD disclosure report is included as Annex 1 to this report and it is recommended that if approved the report is included as part of the Responsible Investment update included in the Pension Fund's Annual Report to be published in July 2021.
6. The elements of TCFD are also part of the United Nations Principles of Responsible Investment (UN PRI) annual assessment which Hampshire committed to participate in following agreeing to sign the PRI in 2019. The text of Hampshire's TCFD report will be used as the basis of the relevant questions in the PRI assessment.

## CORPORATE OR 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

## **IMPACT ASSESSMENTS:**

### **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.

## Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>b) Describe the organization's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>

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## **Hampshire Pension Fund – Task Force on Climate-related Financial Disclosures – Draft disclosures 2021**

### **Introduction**

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system’s exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has been endorsed by over 1,000 companies and financial institutions representing a combined market capitalisation of over US\$12 trillion and nearly US\$118 trillion assets under management. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and sets out below its approach to managing climate risk within the TCFD’s four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.

### **Governance**

#### **Recommended Disclosure (a)**

##### **Describe the board’s oversight of climate-related risks and opportunities.**

The Hampshire Pension Fund Panel and Board is responsible for agreeing investment objectives, strategy and structure and for developing and agreeing the Responsible Investment Policy. All of the Hampshire Pension Fund’s investments are managed by specialist external investment managers. The Panel and Board receive regular reports from the Fund’s investments managers, which includes their management of responsible investment.

To assist with managing the Pension Fund’s Responsible Investment policy and monitoring its activities, the Panel and Board has created a specific Responsible Investment Sub-Committee.

Since 2019 Hampshire Pension Fund Panel and Board has considered 4 separate reports specifically addressing Climate Change risks. These are summarised as follows:

- July 2019 the Panel and Board considered a report concluding a review of the Fund’s Responsible Investment strategy and the creation of the Responsible Investment Sub-Committee.
- March 2020 the Panel and Board agreed and published the Pension Fund’s first annual update on Responsible Investment, including carbon footprint analysis of the Fund’s listed equities.
- March 2020 the Panel and Board agreed to move the Fund’s passive global equity portfolio to a *Climate Aware* strategy, reducing the carbon footprint of the portfolio.
- November 2020 the Panel and Board agreed to move one of the Fund’s active global equity portfolios to a *Paris Aligned* strategy, reducing the carbon footprint of the portfolio.

## **Recommended Disclosure (b)**

### **Describe management's role in assessing and managing climate related risks and opportunities.**

The Deputy Chief Executive and Director of Corporate Resources is responsible for implementation of Pension Fund Panel and Board decisions. Day-to-day implementation of the Pension Fund's Responsible Investment policy is delegated to the external investment managers, who operate under the Pension Fund's policy on Responsible Investment and are responsible for:

- portfolio management including individual decisions on purchase, retention, and sale of investments,
- decisions on corporate actions and corporate governance (proxy voting),
- responsible investment activity including analysis and engagement with companies.

This is overseen by the Pension Fund's officers with oversight from the Deputy Chief Executive and Director of Corporate Resources.

An annual carbon footprinting exercise is used to assess both the risks from Climate Change and also areas of opportunity. In addition, the Hampshire Pension Fund has employed a specialist Responsible Investment (RI) advisor, MJ Hudson Spring, to assess and report on:

- i) The extent to which its external investment managers take account of Environmental, Social and Governance (ESG) risks in their investment process, including the extent to which they have a systematic process in place to assess the risks of the companies which it invests in, including consideration of Climate Change exposure.
- ii) Both a portfolio and individual company/stock analysis of carbon exposure, which includes relative carbon footprint, carbon intensity and an assessment of overall climate change exposure.

The Hampshire Pension Fund is a signatory of the UN PRI and will complete its asset owners survey for 2020 including those related to climate-change and will reflect on the results with a view to how it can incorporate the results in its future reporting.

## **Strategy**

### **Recommended Disclosure a)**

#### **Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.**

The Hampshire Pension Fund has a global investment strategy widely diversified by geography, asset class, sector and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.



The largest allocation in the Pension Fund's investment strategy is to equities, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate-related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

The Fund also recognises that there is uncertainty over the direction and speed of policy changes in this area.

With respect to short term policy risk the Pension Fund monitors and discusses the status of its property investments with its appointed investment manager, who are now required to participate in the Global Real Estate Sustainability Benchmark (GRESB) annual assessment and report performance against the benchmark.

With respect to medium and longer term risk, the Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities. As a public sector fund, reputational risk is also a particular concern, though not for financial reasons.

#### **Recommended Disclosure b)**

##### **Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.**

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager appointments.

As confirmed by the Pension Fund's specialist RI consultant, all but one of the Fund's investment managers are PRI signatories. The Pension Fund strongly encourages managers to become signatories and to adhere to the principles.

The Pension Fund has identified two of its portfolios (passive global equities and one global equity portfolio) that can be transitioned to lower carbon alternatives without compromising the investment return that the Fund requires to meet its Funding Strategy. The Fund will continue to discuss with its investment managers where there are opportunities to improve environmental outcomes that also correlate with positive investment performance.

## Recommended Disclosure c)

**Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.**

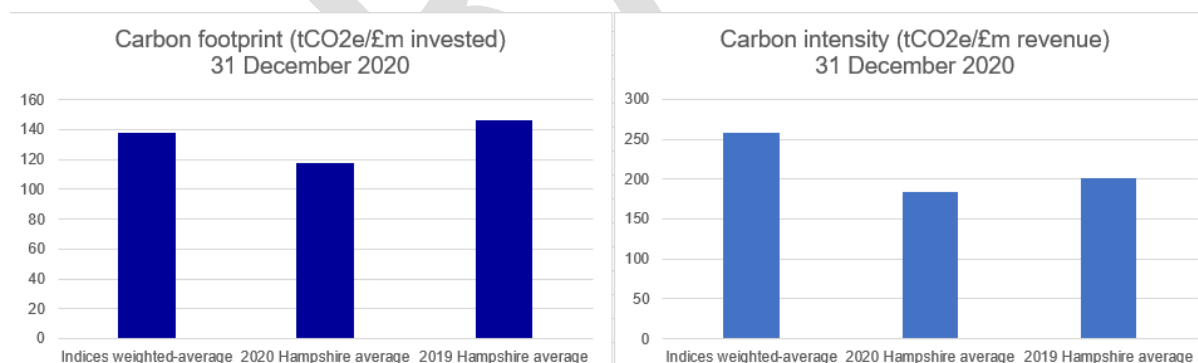
The Hampshire Pension Fund believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations.

The Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies. The Fund continues to encourage greater levels of climate-related disclosures through its discussions with its investment managers and their engagement and voting with the companies they invest in to address this issue.

The Fund is well diversified and has allocations to real assets and through its infrastructure portfolio, the renewable energy sector, therefore Climate Change risks should have a relatively limited impact on returns.

The Fund has already taken steps to re-align its equity portfolio exposure in a managed way to continue to reduce carbon exposure, through moving to lower carbon funds for a number of the existing investment manager mandates, and anticipates that this will encompass further mandates within the next 12 months.

The Fund is well placed as its existing Portfolio already compares well to the weighted average of carbon output for the weighted average of the comparator indices for both Carbon Intensity and Carbon Footprint, and its current strategy is shown to be reducing carbon impact:



## Risk Management

### Recommended Disclosure a)

**Describe the organisation's processes for identifying and assessing climate-related risks.**

The Hampshire Pension Fund's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes Climate Change. This means that external investment managers take into account any climate-related risks when making their investment decisions.

The Pension Fund Panel and Board, supported by its independent advisor, the Pension Fund's officers and the consultants they have commissioned, monitor and scrutinise the Fund's investment managers to help ensure that climate risks are being assessed and addressed. The Fund's listed equity carbon footprinting is used to inform this process.

## **Recommended Disclosure b)**

### **Describe the organisation's processes for managing climate related risks.**

#### **• Development of Specific Investment Strategies**

The Pension Fund has put in place the following specific investment strategies:

- i) holding its portfolio of global passive shares (that track world stock markets) in a Climate Aware Fund, which skews its investments towards companies in each sector that have the best environmental credentials,
- ii) the largest active equity mandate is a strategy which already provides the lowest carbon footprint across the Fund's equity portfolios, and is a fund whose carbon footprint is only 6% of the average footprint of the 'FTSE All World' index,
- iii) has agreed to move its second largest equity portfolio to a Paris Aligned strategy,
- iv) the Pension Fund's allocation to global infrastructure includes 14% of commitments to renewable energy investments, which includes the production of wind, solar and other renewable energy, and
- v) has put in place specific benchmarking of its property portfolio against the Global Real Estate Sustainability Benchmark (GRESB) to ensure a focus on the environmental sustainability of the portfolio.

#### **• Formal Advice**

The Hampshire Pension Fund has taken formal advice from specialist responsible investment consultants MJ Hudson Spring, who reviewed the current Responsible Investment Strategy and suggested areas for development, provided training for the Pension Fund Panel and Board, recommended a roadmap of further responsible investment developments and reviewed the Fund's external investment managers' responsible investment approaches. The review of the Fund's investment managers is a key tool for the Pension Fund in analysing the comparative risks and opportunities from Climate Change across its portfolios, and highlighting areas to focus on with the investment managers.

#### **• Exercise of Ownership Responsibilities**

Ownership activity relating to Climate Change risk is carried out by the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of Environmental, Social and Governance (ESG) issues into their investment analysis and expected to engage on these issues with the

companies in which they invest. Voting activity is published on the Pension Fund’s website and a summary of key issues are reported to the Responsible Investment Sub-Committee for the members to include in their scrutiny of the Fund’s investment managers.

**Recommended Disclosure c)**

**Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.**

The Hampshire Pension Fund’s overall approach to risk management is described in its Risk Management Report, which is part of its Annual Report and published on the Fund’s website at: <https://documents.hants.gov.uk/pensions/HPF-AnnualReport2020.pdf>. Climate Change is addressed as follows.

Risk	Description	Likelihood	Impact	Mitigation
Investment	Environmental, social and governance (ESG) factors including the impact of climate change – that these factors materially reduce long-term returns.	M	H	As set out in the Fund’s Responsible Investment Policy, the Fund’s external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund’s responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund’s interests, by voting or by contacting company management directly.

The Pension Fund currently reports extensively on environmental, social and governance issues including Climate Change. This includes:

- reports for the Pension Fund Panel and Board and the Responsible Investment Sub-Committee.
- an annual report on Responsible Investment Activity which is considered by the Responsible Investment Sub-Committee and sent to pensioners and included in the Fund’s Annual Report.
- a specific page on the Pension Fund’s website <https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment> containing further information.

The Pension Fund continues to pro-actively challenge all its investment managers to improve their reporting on carbon emissions and to justify their investment decisions.

## **Metrics and Targets**

### **Recommended Disclosure a)**

**Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.**

The Hampshire Pension Fund monitors and publishes the shareholder voting of all its external Investment Managers on issues including Climate Change.

The Pension Fund annually reports the carbon footprint and carbon intensity (for Scope 1 and 2 emissions) for all of its equity investments and one of its multi-asset credit portfolios, and can currently measure the carbon emissions of 53% of its investments (50% last year). The Fund is committed to repeating the capture of this data on an annual basis, and is working with its other investment managers to extend the coverage of this information.

Following the analysis of its responsible investment consultants MJ Hudson Spring, the Pension Fund has a list of the investments it holds which are the highest ESG risks, including the risk of negatively contributing to Climate Change. This list is the basis of discussion with the Fund's external investment managers to ensure that they are aware of where their greatest exposures lie, and to seek their investment rationale for continuing to hold such stocks.

### **Recommended Disclosure b)**

**Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**

The Hampshire Pension Reports on Scope 1 and 2 emissions in its analysis. Scope 3 data was not considered to be of a sufficiently robust standard and is not currently included in the disclosures of the companies that the Pension Fund invests in.

The TCFD recommendations call for asset owners to disclose a weighted average carbon footprint. As at 31 December 2020 the Fund's average carbon footprint was 117 tCO<sub>2</sub>e/£ revenue, which is 15% lower than the weighted average of the comparator indices and 20% lower than it was at the end of December 2019. This data includes 53% of the Pension Fund's investments, up from 50% in the previous year.

### **Recommended Disclosure c)**

**Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.**

The Pension Fund is not currently using quantitative targets as part of its Responsible Investment Policy but is committed to continuing to monitor the carbon footprint and intensity of its investments and working with its investment managers to identify opportunities to improve environmental outcomes that also correlate with positive investment performance.

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