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Hampshire County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Responsible Investment Sub-Committee
Date and Time	Thursday, 2nd March, 2023 at 10.00 am
Place	Mountbatten Room, EII Court, Winchester
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
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 and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on 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 3 - 8)

To confirm the minutes of the last meeting on 30 November 2022.

4. DEPUTATIONS

To receive any deputations.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. TASKFORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURE REPORT (Pages 9 - 28)

To receive a report from the Director of Corporate Operations, presenting the Pension Fund's third annual Taskforce for Climate Related Financial Disclosure (TCFD) report.

7. SCHEME MEMBER COMMUNICATIONS (Pages 29 - 36)

To receive a report from the Director of Corporate Operations updating the sub-committee on communication to and from scheme members since its last meeting in November 2022.

8. STEWARDSHIP HIGHLIGHT REPORT (Pages 37 - 50)

To receive a report from the Director of Corporate Operations providing information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets.

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.

AT A MEETING of the Hampshire Pension Fund Responsible Investment Sub-Committee of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Wednesday, 30th November, 2022

Chairman:
*Councillor M. Kemp-Gee

Vice-Chairman:
*Councillor T. Thacker

Elected members of the Administering Authority (Councillors)
*D. Hiscock *R. Mocatta

Employer Representatives (Co-opted members):
*Cllr J. Symthe

Scheme Member Representatives (Co-opted members):
*Dr C. Allen

Observing
*Cllr A Crawford

*present

24. **APOLOGIES**

There were no apologies.

25. **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.

26. **ELECTION OF CHAIRMAN**

Mr Hodgson opened the meeting and asked for nominations for Chairman.

RESOLVED:

That Cllr Kemp-Gee was confirmed as Chairman.

27. **ELECTION OF VICE-CHAIRMAN**

The Chairman proposed Cllr Thacker as Vice-Chairman.

RESOLVED:

That Cllr Thacker was confirmed as Vice-Chairman.

28. **MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 4 March 2022 were confirmed.

29. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman had no announcements.

30. **DEPUTATIONS**

No deputations were received.

31. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (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 ESG issues.

The Pension Fund had received slightly less correspondence in the 6 months to September 2022. There was correspondence on climate change that continued feedback received in the Fund's RI consultation that ran from April to May 2022. Further correspondence had been received on the ongoing issue of companies that are listed by the UN as involved in specified activities related to the Israeli settlements in the Occupied Palestinian Territory, and a new issue related to shareholder voting at the Alphabet (Google) annual general meeting. Both of these issues are covered in the Stewardship Report next on this agenda.

32. **STEWARDSHIP HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (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 and engaged with company management. 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.

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: [Responsible Investment | Hampshire County Council (hants.gov.uk)]

The Director's report also included a number of examples of the company engagement activities that the Pension Fund's equity and multi-asset credit investment managers had undertaken. The examples deliberately focused on issues related to Climate Change and companies with operations in Israel, which scheme members had shown their interest in.

33. CONSULTATION ON CLIMATE CHANGE RISK REPORTING

The RI Sub-Committee received and noted a report from the Director of Corporate Operations (Item 10 in the Minute Book) reporting the Pension Fund's response to the Department for Levelling Up Homes and Communities (DLUHC) consultation on Climate Risk Reporting. The consultation proposes that the requirements of the Taskforce of Climate-related Financial Disclosures (TCFD) recommendation apply to all LGPS funds for the financial year 2023/24.

As Hampshire has already adopted the TCFD recommendations and produced reports aimed to meet the requirements, the Pension Fund was supportive of the consultation. However in several key areas it cautioned that expectations need to be managed:

- There are significant gaps in both the coverage and quality of data. Scope 3 emissions are only starting to be reported for some listed equities and there is no emissions data at all for most unlisted investments.
- Given that there is an incomplete data set, it is unsurprising that the knowledge and understanding in this area is also evolving. Pension Funds cannot rely on a similar set of established standards that they typically would for general investment advice.
- This creates a challenge given the increased burden for knowledge and skills that Climate Risk Reporting places on all those charged with managing and governing LGPS funds, which will also take time to evolve to the levels that we would aim for.

34. RI CONSULTANCY REVIEW

The RI Sub-Committee received a report from the Director of Corporate Operations (Item 11 in the Minute Book) on analysis that has been commissioned by the Pension Fund from the RI consultants MJ Hudson. The work built on initial work commissioned in 2022.

MJ Hudson's high-level analysis showed Hampshire's action to date on responding to Climate Change in its RI policy was comparable to other large pension funds taking action in this area. The analysis of the Pension Fund's equity investment managers showed that Dodge & Cox were lagging behind other managers in not having made a commitment to any Climate Change target or action group. However, since MJ Hudson's initial analysis Dodge & Cox have joined Baillie Gifford and UBS in signing the UK Stewardship Code and have shared with officers their updated tools for measuring companies' alignment to limiting global temperature rises and for prioritising company engagement.

MJ Hudson used the latest 2021 values from the Sustainalytics database for Scope 1, 2 and 3 emissions for the Pension Fund's active and passive listed equity holdings (46% of the Pension Fund's total investments). MJ Hudson's data is in line with the data that the Pension Fund has previously published. It shows a further reduction in the carbon intensity of equity investments, although MJ Hudson have cautioned that the combined effect of the economic contraction resulting from Covid-19 combined with increasing asset value in 2021 will have had a downward movement in carbon intensity figures that may be reversed in the following reporting periods.

The final phase of MJ Hudson's work will consider approaches to carbon reduction and the setting of an interim reduction target. MJ Hudson have set out a range of potential actions including the Pension Fund engages with its investment managers to ask for their assessment of the forecast carbon emissions of their portfolios by 2030.

RESOLVED:

That the RI sub-committee noted the advice from MJ Hudson for the Hampshire Pension Fund in achieving its aim for net-zero green-house gas emissions from investments by 2050 at the latest, including the following the next steps including:

a. MJ Hudson providing a briefing for members, that includes their advice on the Fund's current position in terms of approaches to carbon reduction and specific ESG issues in the portfolio.

b. The Director of Corporate Operations write to Dodge & Cox (copying to the other ACCESS investors) to encourage them that strategic commitment to tackling climate change is required.

c. The further reductions in the Scope 1 and 2 carbon intensity of the Pension Fund's equity investment and the first assessment of Scope 3 emissions.

d. That the Pension Fund engages with its investment managers to ask for their assessment of the forecast carbon emissions of their portfolios by 2030, based on the current investment process, and what (if any) further changes could reduce forecast emissions further.

35. **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.

36. **CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the RI Sub-Committee held on 4 March 2022 were confirmed.

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	2 March 2023
Title:	Consultation Climate Change Risk Reporting
Report From:	*Director of Corporate Operations*

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the Pension Fund's third annual Taskforce for Climate Related Financial Disclosure (TCFD) report

Recommendations

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

Executive Summary

3. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. Hampshire has published two annual reports for the Pension Fund based on the TCFD recommendations, which have been reported to the RI sub-committee.

4. In September 2022 the Department for Levelling-up, Homes and Communities (DLUHC) published a consultation - Governance and reporting of Climate Change risks, which proposed to make reporting based on the TCFD requirements mandatory for LGPS funds starting for 2023/24 reporting. This followed a similar move for private sector pension funds by the Department for Work and Pensions which made TCFD reporting a requirement for the largest private sector pension funds starting in 2022. Although DLUHC is yet to publish its response to the consultation, as Hampshire continues with its early adoption of TCFD reporting, it has chosen to follow the proposals contained in DLUHC's proposals.

Hampshire's TCFD report

5. Hampshire's TCFD report is attached to this report as Annex 1. The report continues to be structured under the four headings of Governance, Strategy Risk Management and Metrics and targets. The majority of DLUHC's requirements simply adopt the original TCFD recommendations, therefore there is little change to Hampshire's report, other than for updates that have occurred in the last year. DLUHC proposals do introduce additional data metrics; total carbon emissions and the percentage of investments that are *Paris Aligned* (with strategies to limit temperature rises to no more than +1.5-2ºC).

Scenario Analysis

6. TCFD reporting continues to require the consideration of scenario analysis. DLUHC's proposals clarify that authorities are required to undertake scenario analysis for both investment and funding strategies. The analysis must consider one Paris-aligned scenario and one other scenario. The scenario analysis must be conducted at least once in each valuation period.

7. In its previous TCFD report the Pension Fund had undertaken scenario analysis on its investment strategy with its investment managers. This was limited in not being able to quantify a conclusion but did help in further assessing the Pension Fund's investment managers abilities to consider the impact of Climate Change. As part of the Fund's 2022 Actuarial Valuation, the Fund has commissioned its Actuary – Aon, to undertake Climate Change scenario analysis of the Fund's funding position. Aon's analysis has considered three scenarios:
    - No transition – implied temperature rise (by 2100) +4ºC
    - Disorderly transition – implied temperature rise +3-4ºC
    - Orderly transition – implied temperature rise +1.3-2ºC

8. A training session will be arranged in order that Aon can present their analysis to the full Pension Fund Panel and Board and allow Members to ask any questions to further their understanding.

Carbon Reduction Targets

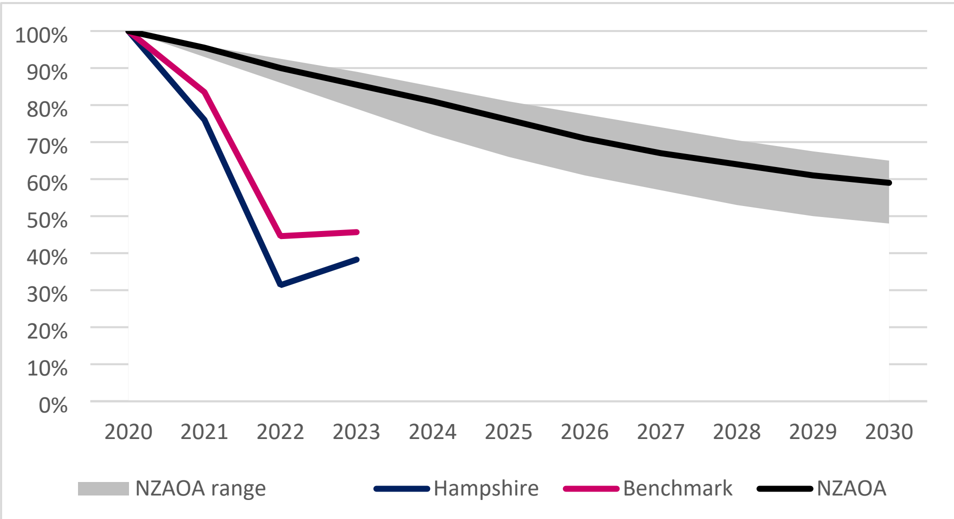
9. In its revised RI policy, following consultation, the Pension Fund Panel and Board agreed that the Pension Fund would commit to the aim for its investments to have net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest. Following this the Pension Fund Panel and Board has considered if setting an interim target would help to achieve this commitment, and this was a question put to the RI consultant's

MJ Hudson, who the Pension Fund commissioned following agreeing the updated RI policy.

10. MJ Hudson's advice to the Pension Fund was to ask its investment managers to estimate their portfolio's carbon emissions by 2030 in order to produce a total Fund target. None of the Pension Fund's investment manager's have been able to produce a 2030 emissions estimate. This is disappointing and will be an issues that the Pension Fund continues to work with its investment managers on.

11. The Pension Fund can still use the Net-Zero Asset Owner Alliance (NZAOA) trajectory to measure its decarbonisation against. The Pension Fund can measure the reduction of the Scope 1 and 2 carbon footprint of its equities, which was data it was first able to measure starting from 2020. The latest figures for 2023 show the Pension Fund has achieved a 62% reduction since 2020, well below the NZAOA trajectory.

Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative)
(% reduction vs. Baseline)



12. The graph above shows a small increase in emissions from last year, for both Hampshire's equities and the benchmark as result of:
    - The majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions. This was a risk that MJ Hudson highlighted in their assessment of the Pension Fund's carbon emissions last year.
    - Challenging market conditions in 2022 reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies especially energy companies.

13. Whilst the increase is disappointing, the Pension Fund is well positioned overall, well below a trajectory to net-zero. The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios or invest in portfolios with already very low emissions:

Data Risk

14. Following DLUHC's Governance and reporting of Climate Change risks consultation the risk of the inaccuracy of carbon emissions data was added to the Pension Fund's risk register. This reflects the evolving understanding of the Pension Fund, its advisors and investment managers in this relative new area. In addition the potential for more carbon data becoming available and that the method of calculation changes over the years, makes comparisons difficult and challenging to report to the Pension Fund's stakeholders.

15. The Pension Fund's mitigation of this risk is the early adoption of TCFD reporting to build its understanding of carbon data and to have an open dialogue with investment managers on the availability of data. This dialogue will continue and the Fund will also continue to make use of specialist advisors when appropriate to meet the requirements of TCFD reporting.

Climate Change Impact Assessments

16. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

17. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy, therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy Responsible Investment | Hampshire County Council (hants.gov.uk).

18. This reports specifical concerns the impact of climate change on the Pension Fund the actions the Fund has taken in response.

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 report because of 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.)

Document	Location
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 disproportionally 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 – Task Force on Climate-related Financial Disclosures – 2023

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. TCFD is supported by over 3,800 companies and financial institutions worldwide.

The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and did so for the first time in 2021. This report sets out the approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. The report also includes the recommendations of the Department for Levelling Up, Housing and Communities (DLUHC) that were consulted on in their paper *Governance and reporting of climate change risks* in September 2022.

Governance

Recommended Disclosure (a)

Describe the Administering Authorities' oversight of climate-related risks and opportunities.

Hampshire County Council is the Administering Authority of the Hampshire Pension Fund, part of the Local Government Pension Fund Scheme (LGPS). The Hampshire Pension Fund Panel and Board (a committee of Hampshire County Council) is responsible for agreeing investment objectives, strategy, 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 and climate related risks and opportunities.

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 (RI) Sub-Committee

In the last year the Hampshire Pension Fund Panel and Board and the RI sub-committee have considered 3 separate reports specifically addressing Climate Change risks. These are summarised as follows:

- March 2022: the Panel and Board agreed and published the Pension Fund's third annual update on Responsible Investment, including carbon footprint analysis of the Fund's listed equities.
- July 2022: the Panel and Board agreed changes to the Fund's RI policy following consultation with the Fund's scheme members and employers.
- November 2022: a report was received from specialist third-party consultants (MJ Hudson) analysing the carbon footprint of the Pension Fund's investments and the climate change risks in each portfolio.

In addition to the reports above the Panel and Board received further training from the specialist third-party consultant on climate change risk.

Recommended Disclosure (b)

Describe management's role in assessing and managing climate related risks and opportunities, including:

- **any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done, and**
- **any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken.**

The Director of Corporate Operations is responsible for implementation of the Pension Fund Panel and Board's 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.

The Pension Fund's officers with oversight from the Director of Corporate Operations, and where appropriate via the ACCESS pool meet regularly with the Fund's investment managers. In addition the Pension Fund Panel and Board see each investment manager at least once annually to provide the opportunity to satisfy themselves that climate risks and opportunities are being managed.

In addition, the Pension Fund Panel and Board receives external support from:

- Specialist third-party consultants (MJ Hudson) who have been commissioned to for specific pieces of work in reviewing its investment managers and the climate risks and opportunities in its portfolios.

- Its independent advisor who provides advice on the general management of the Pension Fund, in particular the oversight of investment managers and advice received by consultants.

The Members of the Pension Fund Panel and Board and officers, have an annual training plan, based on CIPFA's Knowledge and Skills framework to ensure that they have the required skills and experience to satisfy the Administering Authority that there is appropriate management of climate risks and opportunities; this training includes access to the Hymans Robertson LGPS Learning Academy, an on-line module based training package which must be completed by all Panel and Board Members. The learning academy has a specific 'Climate Change and TCFD' module, and also within the 'Investments' module there is specific coverage of 'Responsible Investment'.

Strategy

Recommended Disclosure a)

Describe the climate-related risks and opportunities that will impact the investment and funding strategy 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.

Short term risks are those where the impact or the Pension Fund's actions will have an immediate effect, for example:

- Through the monitoring and discussion of the status of its property investments with its appointed investment manager and subscription of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment; the Fund can monitor the effectiveness of the management of the sustainability of its property

portfolio and through its investment manager target where the priorities for improvements are.
- Via its investment managers engagement with the companies that the Fund invests in, which the Fund supports and monitors, encouragement can be given to companies that share its belief in the importance of implementing the *Paris Agreement*. By adding its support to the adoption and monitoring of decarbonisation plans, the Pension Fund can assist in the move to a lower carbon economy.

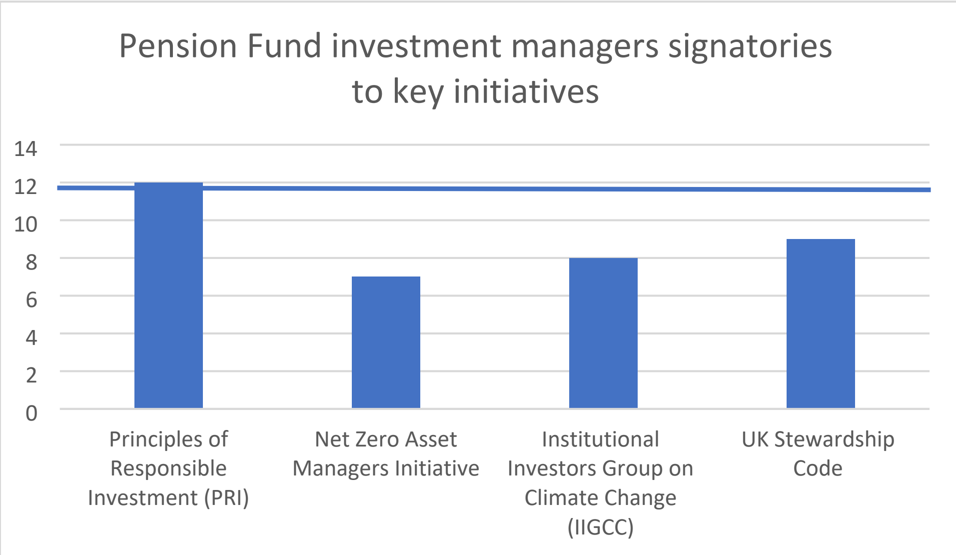
With respect to medium and longer term risk the effects and any actions will take longer to manifest. The Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and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

Funding risks are reviewed by the Actuary at each triennial valuation and on an ongoing basis in discussion with the Pension Fund. In relation to Climate Change these could include the life expectancy of scheme members of the Fund and the ability of the Fund's employers to continue to meet their pension obligations if their circumstances change.

Recommended Disclosure b)

Describe the impact of climate related risks and opportunities on the investment and funding strategy.

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager appointments and the Pension Fund monitors on an ongoing basis its investment managers ability to manage climate risk and opportunities. The Pension Fund believe that there are a number of important and internationally recognised standards that support the better management of climate risks and opportunities. The chart below shows the pension funds 12 investment managers adoption of these standards. The Fund continues to encourage those investment managers that haven't adopting these standards to do so.



The Pension Fund has identified five of its portfolios (two passive global equities, two active global equities and one multi—asset credit) that have been 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.

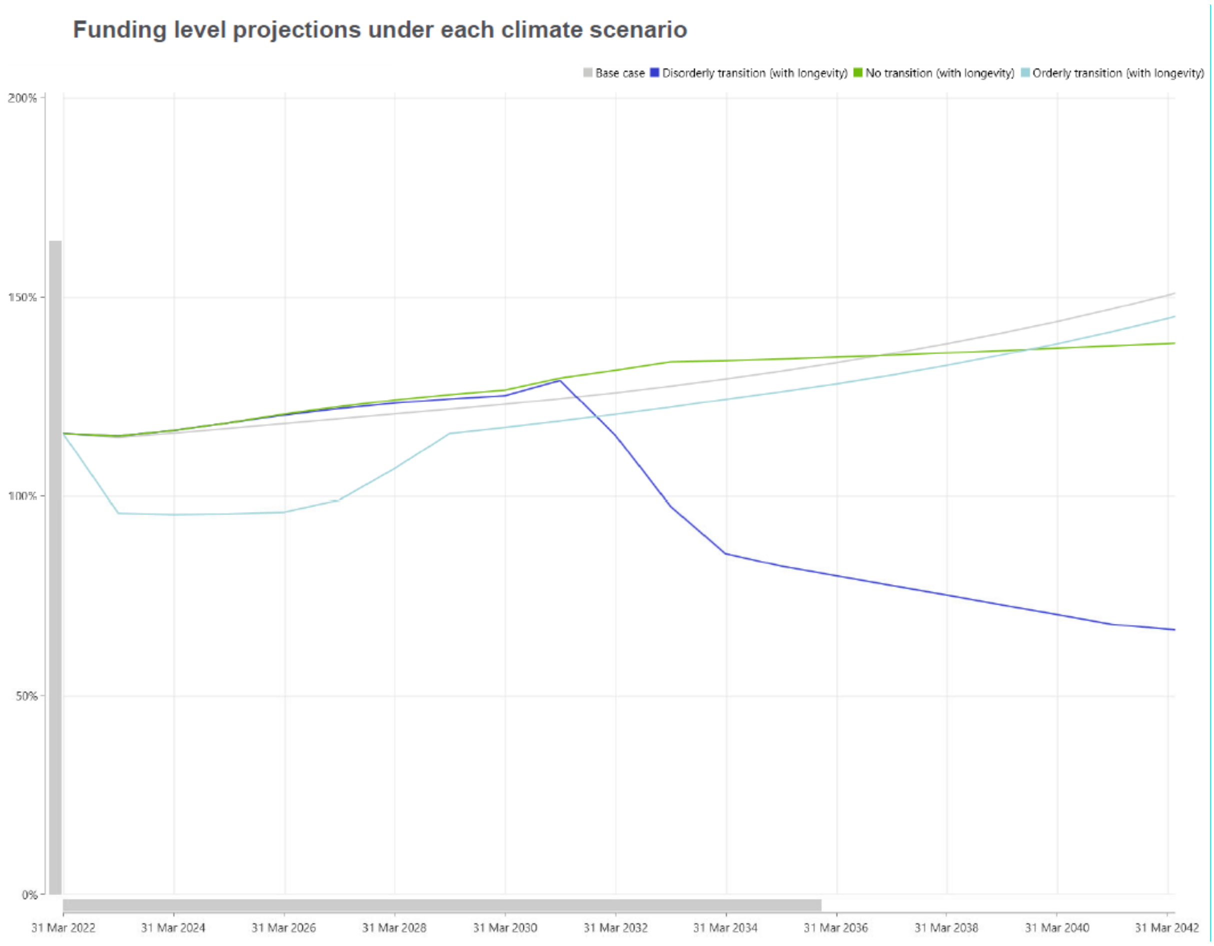
The Pension Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies, however the Fund has engaged with its investment managers on climate risk scenario analysis, and following taking advice from its specialist external consultant, chose to ask its investment managers to consider the PRI's *Inevitable Policy Response* scenario. The engagement exercise between the Fund's officers and the investment managers was productive and this was given due consideration by the Fund's investment managers.

The Pension Fund received a variety of responses from its investment managers, ranging from those where further work would be required to be able to fully assess the impact, to those that had undertaken detailed modelling in producing their response. Although the responses received have varied and did not produce a conclusive quantitative answer, it provided a qualitative assessment of the Fund's investment manager's different abilities to considering scenario analysis. The Fund will look to repeat scenario analysis with its investment managers.

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.

As part of the Pension Fund's 2022 Actuarial Valuation, the Fund's Actuary produced scenario analysis of the Fund's funding position. The Actuary considered three scenarios:

- No transition – implied temperature rise (by 2100) +4ºC
- Disorderly transition – implied temperature rise +3-4ºC
- Orderly transition – implied temperature rise +1.3-2ºC



In summary Aon's analysis is that

- The Fund's investment portfolio exhibits reasonable resilience under most of the climate scenarios. This is due to the diversification of assets.
- The worst-case scenario for the Fund is disorderly transition. Although initially the funding level improves in line with the base case, after 10 years the funding level deteriorates sharply and does not recover by the end of the 20 year modelling period.
- Another key risk is volatility of the funding level. Under the orderly transition, the Fund experiences large falls in the funding level of around 20% before recovering. Deterioration of the funding level will place strain on the participation of employers as they may have to make up bigger shortfall through deficit contributions.

Risk Management

Recommended Disclosure a)

Describe the Administering Authority'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 consider 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 carbon footprinting is used to inform this process.

Recommended Disclosure b)

Describe the Administering Authority's processes for the purpose of enabling them to effectively manage climate-related risks.

• Development of Specific Investment Strategies

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.

A number of the Pension Fund's equity portfolios have been moved to strategies that are *Paris aligned* or are lower carbon.

• Formal Advice

The Hampshire Pension Fund has previously taken formal advice from specialist responsible investment consultants MJ Hudson including:

- review of the Responsible Investment Strategy and suggested areas for development,
- training for the Pension Fund Panel and Board, and
- review the Fund's external investment managers' responsible investment approaches.

In 2022 the Pension Fund recommissioned advice on the Environmental, Social and Governance (ESG) risks across its investment portfolios. This analysis is a key tool for the Pension Fund in analysing the comparative risks and opportunities from Climate Change and highlighting areas to focus 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 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 engagements following up the risks highlighted by the external review, are reported to the Responsible Investment Sub-Committee for the members to include 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 Business Plan. Over 2022 the Pension Fund's approach to risk management was reviewed taking learning from Hampshire County Council's risk management approach. Risks are now scored on a five point scale, with impacts measured for business, financial and reputational impact.

ESG risk	The Pension Fund has a Responsible Investment Policy, which includes setting out how 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.

	The Pension Fund takes advice on the appointment and monitoring of its investment managers, which includes their ability of assess ESG issues and act as steward of investments on the Pension Fund's behalf. A significant amount of the Pension Fund's attention has focused on the management of ESG risk, in particular the risk of climate change. Monitoring is undertaken through the regular engagement with the Fund's investment managers and is reported in a number of ways, including a stewardship report that is made to each meeting of the Fund's RI sub-committee and an annual RI update made to the Fund's scheme members. The Pension Fund continues to commission GRESB benchmarking to measure the management of ESG for its direct property portfolio, which will be used on an ongoing basis prioritise investment in the property portfolio for the greatest ESG benefit. The Pension Fund has continued reporting in line with the TCFD recommendations, to be able to report carbon emissions alongside the investment returns from its investment portfolios. Finally the Fund has recommissioned specialist consultancy review of the ESG risks in its investments portfolios in order to prioritise the scrutiny and reporting of stewardship and engagement by its investment managers.
ESG data	The Pension Fund relies on its investment managers for the provision of ESG data, in particular carbon emissions, in the first instance. Through early adoption of the TCFD recommendations the Pension Fund is in an iterative process with its investments manages to ensure all parties have a shared understanding of carbon emissions data. As part of the mandate for specialist RI consultancy in 2022, the Pension Fund has its consultant of independent verification of the carbon emissions data of its investment portfolios.

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, 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.

Metrics and Targets

Recommended Disclosure a)

Disclose Scope 1, Scope 2 and Scope 3 emissions.

The Pension Fund is currently unable to publish Scope 3 emissions data. Current data from the Fund's investment managers does not have the necessary coverage or reliability for publication. Discussions continue with the Fund's investment managers to improve this.

Absolute emissions metric: Total carbon emissions
Data quality metric

The following table shows that the Pension Fund has carbon data for 65.2% of its investments. The majority of the unreported data relates to the funds unlisted assets; property, private equity and infrastructure investments, where calculating emissions data is harder and behind other asset classes.

Total Financed emissions		Scope 1 (tCO2e)	Scope 2 (tCO2e)	Scope 1&2* (tCO2e)
Estimated	30.5%	69,539	28,165	232,585
Reported	34.7%	25,520	7,052	429,464
Verified	0.0%			
Unreported	34.8%			
Total	100.0%	95,059	35,218	662,049

*Scope 1&2 emissions are not the total of Scope 1 and Scope 2 as for some portfolios the figures cannot be separated and reported individually

Emissions intensity metrics: Carbon footprint and carbon intensity
Paris-aligned metric

The table overleaf shows the carbon footprint (tCO2e/£m invested) and carbon intensity (tCO2e/£m revenue) of each of the Pension Fund's portfolios, and where available the proportion of companies in the portfolio that have set goals aligned with a well-below 2°C scenario (i.e. with the goals of the Paris agreement), which is consistent with net zero carbon emissions by 2050. Through the engagement with companies by its investment managers, companies are encouraged and supported to set Paris-aligned goals where they have not done so already.

Emissions intensity metric: Carbon footprint

Investment manager	Asset class	Total Carbon Emissions (tCO2e)	Scope 1&2 Carbon footprint (tCO2e/£m invested)	Carbon Intensity (tCO2e/£m revenue)	Paris-aligned companies
Acadian	Active global equities	32,671	51.4	76.8	53.3%
Baillie Gifford LTGG	Active global equities	1,414	2.4	17.6	38.0%
Baillie Gifford GA	Active global equities	9,406	17.6	64.2	40.5%
Dodge & Cox	Active global equities	101,307	141.2	193.6	50.0%
UBS - factor mix	Passive global equities	39,633	50.7	149.3	31.6%
UBS - all world	Passive global equities	8,665	33.7	86.9	33.9%
UBS - emerging markets	Passive global equities	5,525	178.8	451.1	5.8%
Alcentra	Multi-asset Credit		158.9	398.0	8.0%
Barings	Multi-asset Credit	15,254	44.0	104.8	24.5%
Twenty-four AM	Asset-back Securities	32,948	34.0	-	
Insight	Asset-back Securities	-	-	-	
CBRE	UK property	-	-	-	
Abrdn	Private Equity	-	-	-	
GCM	Infrastructure	-	-	-	
JPM AAM	Private Debt	28,529	65.8	144.9	
UBS - index linked gilts	Passive	386,697	148.2	-	
Internal	Cash	-	-	-	
Total/Weighted total		662,049	83.7	138.6	

Recommended Disclosure b)

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

The Pension Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2ºC (which we take to be 1.5ºC) relative to pre-industrial levels is entirely consistent with securing strong financial returns, which is its most prominent area of focus for responsible investment.

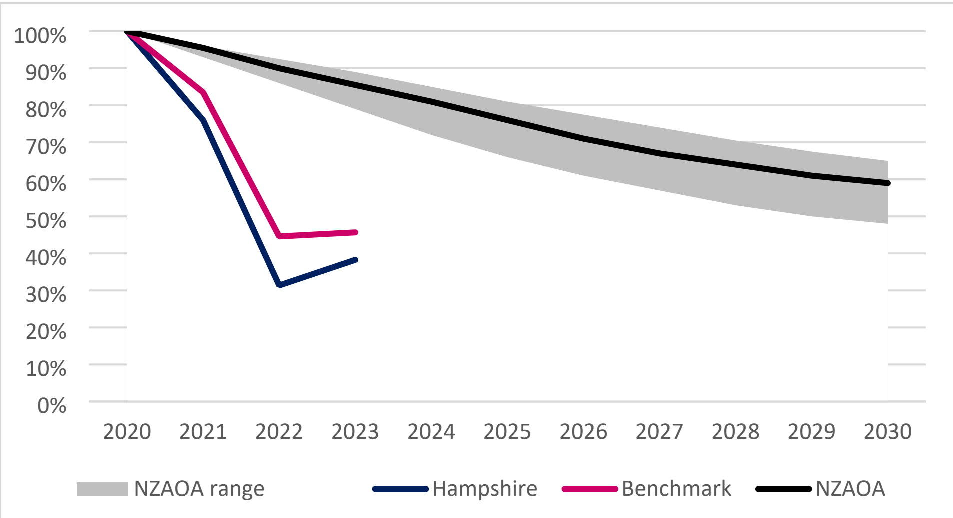
The Pension Fund commits to the aim for its investments to have **net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest.**

To track the Fund's progress to net-zero emissions, the Pension Fund measures against the Net-Zero Asset Owner Alliance (NZAOA) trajectory.

The latest figures for 2023 show the Pension Fund has achieved a 62% reduction since 2020, well below the NZAOA trajectory.

Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative)

(% reduction vs. Baseline)



There has been a small increase in emissions from last year, for both Hampshire's equities and the benchmark as result of:

- The majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions.
- Challenging market conditions in 2022 reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies especially energy companies.

Whilst the increase is disappointing, the Pension Fund is well positioned overall, well below a trajectory to net-zero. The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios or invest in portfolios with already very low emissions:

- Acadian Managed Volatility – carbon emissions limited to 50% of the benchmark.
- Baillie Gifford Long Term Global Growth – carbon emissions are only 6% of the benchmark.
- Baillie Gifford Global Alpha – moved to a Paris Agreement aligned strategy.
- UBS passive global equities – moved to a climate aware strategy.
- UBS passive factor equities - – moved to a carbon aware strategy.
- Barings multi-asset credit - carbon emissions limited to 70% of the benchmark.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	2 March 2023
Title:	Scheme Member Communications
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@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 November 2022.

Recommendations

2. That the sub-committee note that no further communication from scheme members on Responsible Investment (RI) has been received, but the Pension Fund will publish its fourth annual RI update for scheme members.

Executive Summary

3. 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 (ESG) issues as appropriate',

   - 'to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders'.

4. Since the consultation on amendments to the Fund's RI policy, the results of which were reported to the Pension Fund Panel and Board in July 2022, the trend of a reduction in scheme member communication on RI has continued. No communication from scheme members on RI issues have been received in the last 6 months. One Freedom of Information request was received and

answered in relation to fossil fuel investments.

Scheme Member RI update

5. As part of the sub-committee’s remit to report to stakeholders, 4 years ago an annual RI update was produced for scheme members. The update is printed an included in the paper payslips that are still printed for pensioners and published on the Fund’s website for scheme members that log onto the Portal.

6. The Fund’s fourth scheme member RI update is attached to this report as Annex 1. The Fund has again made use of the County Council’s Corporate Communications team for the graphic design of the update. In line the responses to the RI policy consultation last year, that showed scheme members prioritised environmental factors significantly above any of Environmental, Social and Governance (ESG) factors, the update focuses on the Fund’s continued response to Climate Change. In describing the Funds ongoing work to respond to Climate Change, the RI update utilises the data gathered for the Fund’s TCFD report which was presented in the previous item.

Climate Change Impact Assessments

7. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

8. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund’s RI policy Responsible Investment | Hampshire County Council (hants.gov.uk).

9. This paper captures the views of scheme members that have been shared with the Pension Fund on RI issues, including the risks and impacts of

Climate Change, so that the sub-committee can consider these views in their future decision making.

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 report because of 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.)

Document	Location
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 disproportionally 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.

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Developing Responsible Investment with Scheme Members' views

Last year we consulted on the Pension Fund's Responsible Investment (RI) policy. The Pension Fund Panel and Board, who are responsible for the Pension Fund, agreed changes to the RI Policy following the consultation.

The consultation told us most respondents (55%) believed that environmental factors were the most important Environment, Social and Governance (ESG) factor for the Fund. The Pension Fund continues to mirror this belief and prioritises the response to Climate Change in its RI policy which is summarised in this note.

The Pension Fund's beliefs and commitment

We view climate risk and the issues which contribute to it as a key risk to the Fund.

We support the objectives of the **Paris Agreement** and believe in keeping a global temperature rise this century to **well below 2^{o}C (which we take to be 1.5^{o}C)**.

The Pension Fund has committed to the aim for its investments to have **net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest**.

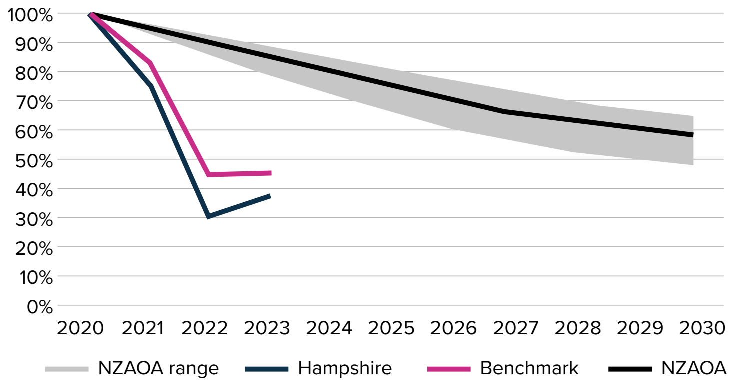
There needs to be a transition to a low carbon economy, but it must be an orderly transition that is inclusive and does not leave anyone behind – a **Just Transition**.

Monitoring the Pension Fund's Progress

To track the Fund's progress to net-zero emissions, the Pension Fund measures against the Net-Zero Asset Owner Alliance (NZAOA) trajectory.

The latest figures for 2023 show that the Pension Fund has achieved a 62% reduction since 2020, well below the NZAOA trajectory.

Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative)
(% reduction vs. Baseline)



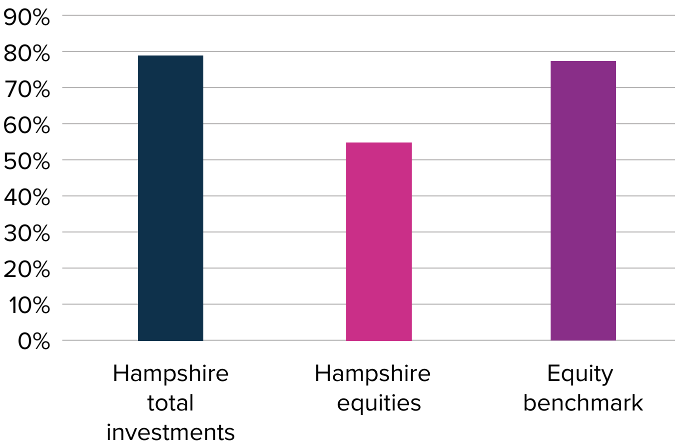
There has been a small increase in emissions from last year, for both Hampshire's equities and the benchmark as a result of:

- the majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions,
- challenging market conditions in 2022 which reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies especially energy companies – this is illustrated in the graph overleaf in the holdings of fossil fuel and renewable investments.

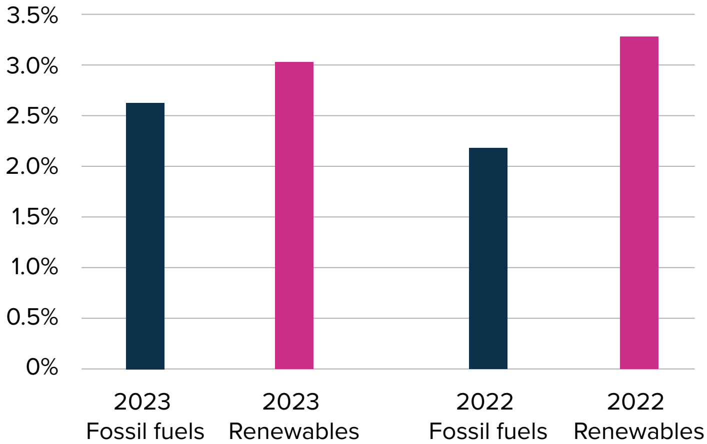
Whilst the increase is disappointing, the Pension Fund is in a good position overall, exceeding the NZAOA's target decrease. The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios – lower carbon investment strategies now account for 85% of the Fund's equity investments.

The Pension Fund supports the Taskforce for Climate Related Financial Disclosures (TCFD) and continues to report based on its recommendations, including reporting its carbon emissions.

2023 Carbon footprint (Scope 1 & 2) tCO2e/£m invested)



Holdings in Fossil Fuel and Renewable investments



How we work

The Pension Fund believes in engaging with companies rather than disinvesting from particular industries, specifically fossil fuel companies, as there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy. However, by investing in and engaging with these companies the Fund can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

The Pension Fund supports several important standards for Responsible Investment and reducing the carbon emissions of investments.

Signatory of: UK STEWARDSHIP CODE | 2021

Transition Pathway Initiative

IIGCC The Institutional Investors Group on Climate Change

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PRI Principles for Responsible Investment

More details of the Pension Fund's Responsible Investment approach are available at Responsible Investment | Hampshire County Council (hants.gov.uk)

If you have anything you'd like to share with the Pension Fund, please email responsible.investment@hants.gov.uk

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	02 March 2023
Title:	Stewardship highlight report
Report From:	*Director of Corporate Operations*

Contact name: Alan Kitcher

Tel: 0370 779 6597 **Email:** Alan.Kitcher@hants.gov.uk

Purpose of this Report

1. This report provides information regarding the Pension Fund's investment managers' stewardship of the Pension Fund's assets, their 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 to December 2022.

Recommendations

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

Executive Summary

3. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code 2020 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 they engage with companies, but as a minimum all are expected to engage with invested companies on areas of concern related to environmental, social and governance (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 13 onwards 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 (via the pooled funds it invests in) 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 renumeration 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:

   - Equities directly held directly in the ACCESS pool (Acadian's Low Volatility portfolio, Baillie Gifford's Long-term Global Growth and Global Alpha portfolios and Dodge & Cox's Global Stock Fund portfolio) will be voted in accordance with ACCESS's voting guidelines, which were agreed by the ACCESS Joint Committee.
   - Equities in pooled funds of external investment managers (such as UBS-AM) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund.

8. 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 Table 1. 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.

9. The Pension Fund publishes its investment manager's voting reports online:

https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment

Engagement highlights

10. In order for the Responsible Investment (RI) Sub-Committee to scrutinise the engagement activity of the Pension Fund's investment managers. The Pension Fund's Annual Stewardship Code report is attached to this report as Annex 1. The report sets out the Fund's approach to stewardship as required by the Code, as well as includes a number of recent engagement examples provided by the Pension Fund's investment managers.

11. The Pension Fund's investment managers have been challenged to provide engagement examples for the companies identified by MJ Hudson as the highest ESG risk, in the recent work that the Pension Fund commissioned. In addition the examples have been structure to try to better capture what the purpose and result of the engagement was.

12. In most instances the engagements are not one-off activities but an ongoing dialogue where the investment managers are attempting to influence the companies' activities. Investment managers have to carefully manage their relationships with company management therefore there are instances where to preserve an effective working relationship, the investment managers cannot publicly disclose the full details of their engagement or have asked to anonymise the examples they have provided.

13. The explanations provided by investment managers for their voting and engagements are provided for Members to evaluate the investment manager's stewardship and to challenge and follow-up as necessary in future interactions with the investment managers.

14. **Voting highlights**

15. 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 to December 2022, which are 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.

16. 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.

17. In all these instances voting against the company management is in line with ACCESS's policy, which allows 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 investment managers 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.

18. 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.

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently

Company	Resolution	Investment Manager 1	Investment Manager 2
Tesla	Appoint directors	Baillie Gifford - FOR – Supported individuals proposed by management as reasonable.	UBS - AGAINST - The Company has not met our expectations and principles in regard to gender diversity. Incumbent director who has failed to enact a proposal that gained a majority of shareholder vote.
Tesla	Adopt proxy access right	Baillie Gifford – AGAINST - We believe the resolution as stated would not be in the best interests of shareholders and could leave the company open to very	UBS – FOR - We will support proposals that increase shareholders' rights such as proxy access proposals when the conditions are reasonable

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	**Resolution**	**Investment Manager 1**	**Investment Manager 2**
		small shareholders, with a very specific agenda, to target the company.	
Tesla	Adopt a Policy on Respecting Rights to Freedom of Association and Collective Bargaining.	BAILLIE GIFFORD – AGAINST - These rights are enshrined in the National Labor Relations Act and like any US company, Tesla must comply with the law and this is not a matter for company policy.	UBS – FOR - We will support proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value.
Tesla	Report on Water Risk Exposure	BAILLIE GIFFORD – AGAINST - The company already provides detailed disclosure and has stated its intention to continue to increase the level of disclosure in future Impact Reports.	UBS – FOR - The request for additional reporting is reasonable, and would UBS Asset Management 34 Corporate governance - proxy voting from 01 Jul 22 to 30 Sep 22 Meeting Date Company (AGM/EGM) Resolution Vote cast Comments enable shareholders to have a better understanding of the company's approach.
Alibaba	Appointment of auditors	BAILLIE GIFFORD – FOR - 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.	DODGE & COX - AGAINST - A vote against is warranted given that the current auditor's tenure exceeds 10 years.
FedEx	Report on Climate Lobbying	UBS – FOR - The proposal would enable shareholders to determine the strength of company policy,	DODGE & COX – AGAINST - Not material and may cause reputational harm

Table 1: Examples of instances where the Pension Fund’s investment managers have voted differently			
Company	**Resolution**	**Investment Manager 1**	**Investment Manager 2**
		strategy and actions in regards to climate change.	
FedEx	Report on Racism in Corporate Culture	UBS – FOR - The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.	DODGE & COX – AGAINST - The proponent is requesting a third-party racial equity audit of the company s policies and practices and not simply requesting data.
FedEx	Report on Alignment Between Company Values and Electioneering Contributions	UBS – FOR - 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.	DODGE & COX – AGAINST - Not material and may cause reputational harm
FedEx	Report on Lobbying Payments and Policy.	UBS – FOR - In general, we will support shareholder proposals seeking greater transparency on company lobbying except where covered by existing legislation and where the company meets such regulation, unless there is a direct reputational risk.	DODGE & COX – AGAINST - Not material and may cause reputational harm
Prosus	Appoint Auditors	UBS – FOR – Management’s proposal is reasonable	DODGE & COX - AGAINST - the auditor tenure exceeds 10 years.
VMWare	Appoint Auditors	UBS – FOR – Management’s proposal is reasonable	DODGE & COX - AGAINST - the auditor tenure exceeds 10 years.

Climate Change Impact Assessments

19. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

20. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy InvestmentStrategyStatementincludingRIpolicy.pdf (hants.gov.uk).

21. This paper addresses how the Pension Fund's investment managers have considered ESG factors including the risk and impact of Climate Change have been considered in their stewardship of the Pension Fund's investments.

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.)

Document	Location
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 disproportionally 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) (ACCESS)

Stock	Proposal	Vote	Rationale
FSE Lifestyle Services Limited	Management - Approve PricewaterhouseCoopers as Auditor and Authorize Board to Fix Their Remuneration	Against	A vote AGAINST is warranted, due to the length of the auditors tenure.
FSE Lifestyle Services Limited	Management - Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights	Against	A vote AGAINST these resolutions is warranted for the following: The aggregate share issuance limit is greater than 10 percent of the relevant class of shares. The company has not specified the discount limit.
Tessenderlo Group NV	Management - Approve Capital Increase by Contribution in Kind of Shares in in Accordance to the Exchange Offer Agreement with Picanol NV	Against	A vote AGAINST is warranted because: We note that this is a similar transaction as the failed attempt in 2016 to merge TESB with PIC, and appears to be designed for the purpose of consolidating Luc Tack's businesses. The transaction is not supported by a compelling strategic rationale as TESB is acquiring a very distinct business. The proposed acquisition does not appear value distinct business. The proposed acquisition does not appear value accretive for the business as no obvious operational synergies were identified other than minor administrative expenses.
CITIC Telecom International Holdings Limited	Management - Approve Deposit Services Under the CITIC Bank Agreements	Against	A vote AGAINST this proposal is warranted because the proposed related-party transactions include a financial service agreement with the group finance company, which may expose the company to unnecessary risks.

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

Stock	Proposal	Vote	Rationale
Tesla	Shareholders – Social	For	We supported the resolution requesting additional disclosure on their efforts to address harassment and discrimination in the workplace. We believe quantitative disclosure would help us understand and monitor the company's efforts.
Tesla	Shareholders – Governance	Against	We opposed the resolution requesting a report on board diversity. We continue to have good discussions with the company on board refreshment and have confidence in their approach to identify quality directors.
Tesla	Shareholders – Social	Against	We opposed the resolution requesting a report on the company's policies will go to eradicate child labour in their battery supply chain by 2025. We think the company's efforts have already been very comprehensive in this area and view another report as unnecessary.
Alibaba	Management – Appointment of Directors	For	ACCESS guidelines recommend we oppose the election of a joint CEO/Chair. We are comfortable with the current CEO/Chair and therefore supported their election.

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

Stock	Proposal	Vote	Rationale
Ubisoft	Management – renumeration	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.
Snowflake	Management – appoint directors	For	ACCESS guidelines recommend we oppose the election of a joint CEO/Chair. We are comfortable with the current CEO/Chair and therefore supported their election.
Richemont	Shareholders – governance	Against	We opposed two shareholder resolutions to appoint a representative of category A shares due to a lack of compelling justification for the candidate nominated by the proponent. Instead, we chose to support the candidate proposed by the management.
Alibaba	Management – appoint 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.
Microsoft	Shareholders - social	Against	We opposed a shareholder resolution requesting a report on the risks to the company of its perceived involvement in the development of weapons for the military. We don't view this to be a material risk for the business currently.
Estee Lauder	Management – renumeration	Against	We opposed the executive compensation due to continued practice of granting sizable one-off awards.

Dodge & Cox – Global Stock Fund (global equities)

Stock	Proposal	Vote	Rationale
VMWare	Management – appoint auditors	Against	A vote AGAINST is warranted given that the current auditor's tenure exceeds 10 years.
Axis Bank	Management – appoint directors	Against	A vote AGAINST is warranted, since the nominee is not subject to re-election by rotation at least every three years.
FedEx	Shareholders – report on climate lobbying	Against	Dodge & Cox report that this issue is not material and may cause reputational harm
FedEx	Shareholders – report on racism in corporate culture	Against	The proponent is requesting a third-party racial equity audit of the company’s policies and practices and not simply requesting data.
Microsoft	Shareholders – report on tax transparency	Against	Tax policy and disclosure is a routine business item that falls under management's purview. Dodge & Cox considers the reputation, experience, and competence of a company's management and Board when it researches and evaluates the merits of investing in a particular security. In general, Dodge & Cox has confidence in the abilities and motives of the Board and management of the companies in which Dodge & Cox invests and typically will vote in accordance with them on routine issues when adequate information on the proposal is provided.

UBS-AM – passive equities

Stock	Proposal	Vote	Rationale
Diageo Plc	Management - Authorise Issue of Equity	Against	We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.
The Procter & Gamble Company	Management - Elect Director Angela F. Braly	Against	Candidate is not considered independent and the Audit Committee is not made up of at least 2/3 independent directors.
Paychex, Inc	Management - Advisory Vote to Ratify Named Executive Officers' Compensation	Against	Pay frameworks where long-term awards have a performance period of less than three years do not provide adequate alignment with shareholders' long-term interests. Greater than 50% of equity awards vest without reference to performance conditions.
Barratt Developments Plc	Management - Authorise Issue of Equity.	Against	We will not support routine authorities to issue shares with pre-emption rights exceeding 20% of the issued share capital as they are potentially overly dilutive and therefore not in the interest of existing shareholders.