HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	30 November 2022
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 January to June 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.

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 following paragraphs provide a summary of engagement highlights from the first half of 2022. The Pension Fund's investment managers have been challenged to provide engagement examples of where they have engaged on Climate Change and investments in Israel (which have both been the most prominent issues recently raised by the Pension Fund's scheme members), where they have engaged collaboratively and where there is a risk they feel their engagement may not be successful.

11. 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.

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

Acadian

13. **A Polish Utilities Company** – this example is related to reducing carbon emissions and transition to a low carbon economy. The company has a stated ambition to be climate neutral by 2050. By 2030 it aims to have around 85% of generation from zero- and low-emission sources, with renewables providing around 50% of the total. Despite these ambitions, the company scores poorly across several Climate Action 100+ indicators. The company has not aligned itself to the TCFD framework and has not announced science-based targets. Acadian have asked the company to publicly commit to targets and explain its definition of climate neutrality. The company has acknowledged the issue and Acadian will continue to engage to ensure a credible strategy is implemented.

14. **A Taiwanese Industrials Company** – this example is related to reducing carbon emissions and transition to a low carbon economy. Acadian identified a discrepancy within the company's reported carbon emissions data. The

company's sustainability report acknowledges that the firm restated its carbon numbers. Acadian have asked the company to adhere to the GHG Protocol and explained how to identify abnormal trends in companies' carbon reporting. Acadian are maintaining an ongoing dialogue.

15. **A US Utilities Company** - this example is related to collective engagement. This is an on-going collaborative engagement associated with Climate Action 100+. The engagement is related to Acadian's Climate Action theme (Just Transition). The company has limited reporting on its Just Transition policy and does not have a commitment to retaining, retraining, redeploying and/or compensating workers affected by decarbonization. Acadian asked the company to expand its reporting on the policy, actual actions, and implications.

Baillie Gifford: Global Alpha

16. **Alibaba** – Baillie Gifford met with Alibaba's Director of ESG Engagement and RI in order to encourage improved ESG reporting and to explore how sustainability is managed across the Group. Alibaba recognised that its ESG reporting has not been comprehensive enough in the past and has committed to improving it greatly in 2022. Alibaba have targeted ESG improvements and recently published a carbon neutrality action plan, which seeks Scope 1 and 2 emissions neutrality by 2030. Baillie Gifford also engaged on the Group's social responsibility strategy and discussed its new Common Prosperity committee which, chaired by the CEO, aims to establish accountability across the Group for delivering on a number of social initiatives, including improving the quality of jobs provided and enabled by Alibaba. The initial engagement has been followed up with further communications illustrating good sustainability practice and reporting, and meetings with Alibaba will continue to encourage positive social and environmental developments.

17. **Booking.com** – Bookings.com provides an online accommodation reservation service. They are one of the businesses identified by the Office of the United Nations High Commissioner for Human Rights (OHCHR) involved in activities linked to Jewish settlements in the Israeli-occupied West Bank. These activities relate to tourist rental listings. Booking.com is a wholly owned subsidiary of Booking Holdings. Booking Holdings operates in over 220 countries, with 28 million listings. Its listings in the West Bank return less than 100 properties, thus it's a small part of its overall revenue base. Baillie Gifford have concerns about the broader reputational impact this could have on the business and so are actively engaging with Booking Holdings to understand their policy on this issue. This has included discussions around their due diligence process, their Human Rights statement, and their risk-based assessments. Booking Holdings appears to be taking steps to better explain its approach to operating in this and other contentious regions. Baillie Gifford continue to monitor this closely to assess the danger of this becoming a serious reputational risk.

18. **CRH** – CRH is an international group of diversified building materials businesses. Baillie Gifford have engaged with the Chief Operating Officer and Investor Relations to discuss CRH's updates regarding its approach to decarbonising its business. CRH feel they have an important role to play in decarbonising cement - one of the company's building materials which accounts for 16 per cent of its sales but 82 per cent of its carbon emissions. Baillie Gifford challenged the company's targets due to their limited scope and in response earlier this year the company announced broader and more ambitious carbon targets. Various parts of the business have developed their own decarbonisation strategies to implement the new targets. Executive remuneration has also been amended and decarbonisation now represents 5 per cent of the long-term incentive plan. CRH has also announced an innovation fund to encourage those within the business to think about the solutions needed to decarbonise at scale. Baillie Gifford have joined the Climate Action 100 collaborative engagement group for CRH to support future engagement. Ensuring CRH finds a solution to decarbonise at scale is vital to ensure a competitive advantage and the sustainability of revenues. This will continue to be the key focus of engagement.

19. **Rio Tinto** – Rio Tinto is a leading global mining group that focuses on finding, mining and processing the Earth's mineral resources. Baillie Gifford have engaged with Rio Tinto and discussed the company Climate Action Plan. The company has strengthened its decarbonisation targets for scope 1 and 2 emissions in the last year, aiming to reduce its operational footprint by 50 per cent by 2030. Baillie Gifford commended the company for this work but also outlined their concerns that it is not doing enough to address the large scope 3, downstream emissions in its value chain. These emissions represent approximately 95 per cent of Rio Tinto's carbon footprint, the majority of which is attributed to its steel manufacturing customers. While there are difficulties in addressing indirect emissions, Baillie Gifford think the company can show more ambition and greater urgency in its climate strategy. In addition to developing partnerships and funding research, Baillie Gifford think Rio Tinto should consider setting scope 3 emissions targets, and Baillie Gifford would support greater financial investment to futureproof this part of the business. Baillie Gifford plan to continue their dialogue with the company and have raised the concerns with the new Chair.

Baillie Gifford: Long Term Global Growth (LTGG)

20. **Pinduoduo** - Pinduoduo is an agricultural-focused technology platform. Baillie Gifford have engaged with Pinduoduo to discuss their agricultural initiatives in addition to other ESG approaches including carbon emissions, green packaging, quality control, talent development and board structure. After the discussions, Pinduoduo launched their ‘10 Billion Agriculture Initiative’ to support agricultural modernisation. The measure of cutting multi-layered distribution in logistics has enabled the company to better solve the issue of food waste. Pinduoduo has a specialised quality control team in-house dealing with counterfeit goods and verifying the product quality. The

company has also developed a robust culture for talent development and offers young employees sufficient growth opportunities. With several initiatives advancing together, Pinduoduo is solving real-world problems to facilitate agricultural modernisation and lift people out of poverty. Baillie Gifford hope to see more efforts in disclosing carbon numbers and mapping out firm-wide climate strategies.

Dodge & Cox

21. **Williams** – The Williams Companies (Williams) is one of the largest natural gas transporters in the United States. Dodge & Cox has had multiple discussions with company management including Board directors, CEO, CFO, heads of key divisions, and members of Williams' ESG team, in addition to discussions with third-party research analysts and credit agencies. Williams currently targets a 56% reduction in Scope 1 and 2 greenhouse gas emissions by 2030. The primary ways they are achieving lower emissions include new methane reduction initiatives and electrifying pipeline infrastructure to reduce the company's internal fossil fuel consumption. Management is also exploring commercial opportunities around solar energy, alternative fuels such as renewable natural gas and hydrogen, and efficient energy storage. Achieving these decarbonization targets will require significant capital and operational expenditures for Williams, but there are also potentially attractive revenue opportunities. Dodge & Cox's global industry analyst incorporated these metrics into their financial model for Williams and tracks the company's progress as well as costs to achieve targeted emissions reduction, among other metrics. For example, Williams recently reported that its Scope 1 emissions generated in 2021 were reduced by approximately 29% compared to 2020. A subsequent conversation with management yielded additional details that were incorporated into an updated earnings forecast.

22. **Booking Holdings** - Booking Holdings is currently the largest online travel agency, and includes the brands Booking.com, KAYAK, and Rentalcars.com, among others. Dodge & Cox is aware of the concerns around Booking's involvement in the Occupied Palestinian Territories and its inclusion in the Report of the United Nations High Commissioner for Human Rights. At this time Dodge & Cox does not believe these concerns pose a material risk to the long-term value of the company's business given the company currently operates in 220 countries around the world and less than 0.002% of its properties are affected. However, Dodge & Cox think these concerns should not be ignored. Over the years, Dodge & Cox have spoken with Booking's company management about the importance of the company's reputation on equity, inclusion, and fairness as one of the most globally focused companies in the world. When the UN Report was flagged, Dodge & Cox asked Booking's Investor Relations team if the company intended to address concerns raised by the report, and they made it clear that the company would respond. Most recently, in February 2022, in a conversation with Dodge & Cox that covers Booking and the Head of Dodge & Cox's Proxy Voting and

Governance Team, they asked Booking to specifically address how the company will be responding to the UN Report and the concerns over the properties the company holds in the Occupied Palestinian Territories. Dodge & Cox also wanted to better understand what policies and procedures the company intends to put in place to avoid similar situations in the future. Booking recently created a Human Rights Risk Management Program that is designed to manage human rights issues that are identified across the locations where the company operates, and they published a Human Rights Statement addressing this issue in April 2022. They also are making sure the properties are labelled as being located in Israeli Settlements in the Occupied Palestinian Territories for transparency to customers. Dodge & Cox have asked that Booking keep them updated on the Human Rights Management Program and look forward to continuing the conversations with Booking company management on this and other relevant issues.

UBS-AM: passive equities

23. **ABB Ltd** – ABB is a multinational electrical equipment, robotics, and automation manufacturer. UBS engaged with the Company on the topic of executive remuneration to address the lack of ambitious ESG targets in the compensation framework. Given the significant opportunities that the Company enjoys in the transition to a low-carbon economy, UBS saw ESG compensation targets as a potential key driver of company value. UBS discussed the inclusion of ESG targets into the compensation framework with Investor Relations. UBS suggested the inclusion of such targets in the Long Term Incentive Plan (LTIP) - with a significant weight - reflecting the strategic priority of the Company to reduce emissions. UBS mentioned that targets should be based on the implementation pathway for greenhouse gas reduction, setting interim targets on the way to the long-term 2030 target. The Company was receptive to feedback, yet mentioned they received contrasting inputs on this point from a number of investors. The Company also mentioned that ESG performance is ultimately reflected into the Total Shareholder Return (TSR), which determines 50% of the LTIP, and that ESG targets were already included in the annual bonus. In response to UBS's engagement efforts, as well as feedback received from other large shareholders, the Company decided to immediately include ESG targets in the LTIP, weighing 20% of the overall grant. The targets will initially be set for the 2022-24 performance period, and they will be based on reduction of Scope 1 & 2 emissions. UBS consider this outcome to be clearly positive, as investor dialogue was key in encouraging the Company to move quickly in the right direction: reduction of greenhouse gas emissions is a key opportunity for the Company, and a significant ESG target in the LTIP will push the Company to capitalise on it.

24. **Chubu Electric Power** – Chubu Electric Power is a Japanese electric utilities provider. UBS have been engaging with the Company on its climate transition plans for three years. Since then, the Company has made progress on developing targets related to climate change including a commitment to net zero emissions by 2050. In June 2021 UBS wrote to the Board acknowledging the company's progress in setting long term emissions reduction targets, increasing its exposure to renewable energy, and aligning corporate disclosure with the TCFD recommendations. UBS also strongly encouraged the Company to further consider expanding the scope and time horizons of its emissions reduction targets, and accelerating the phase out of its coal power generation. The Company has announced a target to reduce emissions from power sold to customers by 50% between 2013-30 in addition to its net zero commitment for 2050. Despite plans to significantly expand renewable energy there are uncertainties related to the slow rate at which the Company aims to phase out its coal-fired power plants and the dependence on reactivating its nuclear capacity. In response to UBS's letter the Company has acknowledged the concerns and indicated its desire to continue to engage.

25. **China Mengniu Dairy Co.** – Mengniu Dairy is a manufacturer and distributor of dairy products. UBS co-led a collaborative engagement with China Mengniu, as part of their membership of the Access to Nutrition network. In 2021 the Access to Nutrition Index included Chinese companies for the first time, including China Mengniu Dairy. The Company scored poorly, which appeared to be due to the use of publicly disclosed information only. Other companies, which have been included in the Index for many years, have had the opportunity to engage with the Access to Medicine Foundation in the past, to share additional information directly with them but also to work towards enhanced practices and disclosures. UBS led this collaborative engagement with a total of 30 investors supporting the engagement and 10 participating in the engagement meeting itself. The objectives of the engagement were to:

    - explain the importance/materiality of Access to Nutrition from an investor perspective
    - to discuss best practices and encourage the company to enhance practices and disclosure in the areas of governance, strategy, lobbying, and transparency and safety in operations.

    The company has proved to be very receptive to the engagement and has requested a follow-up meeting with us and the Access to Nutrition Foundation, to better understand best practices as well as the methodology of the Index. They have committed to enhance disclosure on existing practices and to enhance practices.

Barings (multi-asset credit)

26. **Oil & Gas Services Company** - For a number of years, Barings have been involved with an international oil field services provider, which operates through 3 segments: Land Drilling, Platform Services (offshore), and land rig manufacturing and engineering services. Barings was a leading member of the creditor committee during the 2020 balance sheet restructuring, which

saw a 75% reduction in debt with creditors taking 100% of the equity. Given the oil & gas operation, Barings actively engaged during the restructuring, and continues to engage as shareholders to improve the ESG performance of the company. A positive outcome was that following shareholder advice which Barings participated in, the company engaged a leading ESG consultant in 2021 to begin the development of a formal ESG report, which will be released to investors over the coming months. As part of this process, the company is implementing formal carbon tracking across the group to develop formal reduction targets.

27. **Global Automotive manufacturer** - Barings holds an investment in a global automotive manufacturer. Given its scale, the company is considered a niche manufacturer under current European emissions legislation and is excluded from current mandatory emissions reduction targets. From 2030, the company is expected to be captured by regulatory requirements in line with larger automotive OEMs. Barings has viewed this as a key environmental and financial credit risk for the company given its potential to impact demand dynamics and upcoming capital investment requirements. The company has previously carried a 4 (Poor) / Stable Outlook environmental rating under Barings' ESG Ratings methodology. Barings has been engaging with higher emitters across relevant sectors as part of its focus on addressing environmental risk across strategies. During the last year, Barings had multiple engagement calls speaking directly to the company's sustainability team and senior management representatives. Barings requested improvements to the governance approach to environmental risk topics and also the implementation of specific targets around emissions reduction. In April 2022, the company announced its ESG strategy including a commitment to the Science Based Targets initiative (SBTi) Net-Zero Standard. The business is now targeting a net-zero manufacturing footprint by 2030 and a net zero supply chain by 2039. The company also announced a path towards electrification with the launch of its first plug-in hybrid vehicle expected in 2024 and the first fully electric vehicle in 2025.

Alcentra (multi-asset credit)

28. **Thematic dialogue with oil and gas companies** – Alcentra initiated an engagement with 12 oil and gas companies to gain a better understanding of their climate strategies – including relevant metrics and targets used. For example, Alcentra seek to understand if companies have set climate goals and if these are aligned with the aims of the Paris Agreement, which seeks to keep the temperature rise well below 2 degrees Celsius above pre-industrial levels, preferably to 1.5 degrees Celsius. The dialogue has been led by Alcentra's liquid credit team in close collaboration with the Responsible Investment team. The key considerations pertain to companies' governance, strategic risk management, emissions reduction metrics and targets, as well as other environmental factors.

29. **European manufacturer of powered garden equipment** – Alcentra's Co-Head of Special Situations was appointed to the Board of Directors of a European manufacturer of consumer goods held in their portfolio. He is also the chair of the firm's newly formed ESG Committee. The aim of this engagement was to support the company as it develops is ESG strategy. The establishment of the portfolio company's ESG Committee has been valuable for the firm as it supports the company in its journey to become more sustainable. The ESG Committee is responsible for identifying its strategic ESG priorities and implementation projects, defining ESG targets and KPIs to measure progress, evaluating ESG quarterly data, identifying progress against targets and corrective actions, and reviewing and approving the company's ESG disclosures. The company is committed to progressively replacing petrol-powered products with electric or battery-powered alternatives, with the aim of reducing the environmental impact of products sold on the market. This transformation is one of the main pillars of the company's sustainability roadmap. The transition from petrol to batteries has improved the competitiveness of the brand in the market and has increased the company's knowledge on green technologies. It has also reduced the energy consumption and the greenhouse gas emissions from the use of its products. Additionally, it has created a more attractive product that is quieter and does not emit fumes while operating. Alcentra believe their engagement has contributed to creating value at the firm, which supports the objective of ensuring long-term returns for their clients.

Insight (asset backed securities (ABS))

30. **Together Financial Services** - Together Financial Services is a UK based financial services company providing residential, commercial and buy-to-let mortgages as well as providing bridging loans and auction finance. Insight carried out a proprietary questionnaire which highlighted the following areas of weakness: environmental stress tests and monitoring environmental risks across their loan book, no inclusion of explicit climate risk analysis within their underwriting process beyond standard practice, lack of carbon data and environmental metrics from originator 'data tapes' that are provided at new issue and at regular intervals, and weak processes to cope with changing circumstances by underlying borrowers. This initial engagement highlighted these concerns; however no material change has occurred to date. Together have listened to the feedback and confirmed that they will consider the provision of information in areas such as climate risk and carbon footprint. Insight will continue to assess and review practices and will follow-up in subsequent reviews to monitor progress.

31. **CVC Cordatus** – Insight's engagement with CVC Cordatus was undertaken in addition to the standard credit underwriting process that was conducted as an integral part of the due diligence process. Material concerns were identified through the credit research process including:

- Governance and permitted investment activity within the Collatoralised Loan Obligation (CLO) enabled the CLO manager undue freedom to run inappropriate levels of concentration risk within the structure. Greater exposures to 2nd Lien loans were also permitted compared to previous deals.
- ESG restrictions within the CLO were too wide. Initial documentation permitted exposure to any obligor as long as under 50% of their revenues came from problematic sectors such as from the production or marketing of pornography or prostitution, opioid manufacturing and distribution, fossil fuel extraction by unconventional sources, fracking or coal mining.

Engagement included discussions with both the CLO manager (CVC) and the lead broker on the deal. As a result of direct engagement, CVC Cordatus agreed to address all of the underlying concerns. Investment restrictions were tightened, leading to a stronger governance control over the permitted investment flexibility of the CLO manager. 2nd lien loan limits were materially reduced to bring the deal in line with previous deals. The CLO manager reduced the revenue limit for problematic from 50% to 5% in line with our requirements. The engagement was concluded satisfactorily, and Insight continue to engage with CVC Cordatus more broadly as part of their wider engagement.

TwentyFour AM (asset backed securities)

32. **Enra Specialist Finance –** Enra are an independent property-backed lending specialist. TwentyFour have engaged with Enra on its plan to measure the carbon emissions of its mortgage portfolio, as well as its strategy to improve the average EPC rating of its mortgaged properties over the next five years in line with new government requirements to have a minimum EPC rating of C for new buy-to-let tenancies by 2025 and for all existing buy-to let tenancies by 2028. Enra records EPC ratings for its 1st lien mortgages but is unable to record ratings for its 2nd lien mortgages. Enra are not tracking carbon emissions at the moment but have said they will look at methodologies to do so as the industry evolves. Enra intends to grow its green buy-to-let mortgage origination in order to incentivise higher EPC rated properties, and the product is also paired with a commitment to purchase carbon offset credits by West One (Enra's lending brand), offsetting one tonne of carbon for each product sold. TwentyFour expect Enra to make further progress on the carbon emissions data and EPC rating for 2nd lien mortgages. This will be monitored going forward and TwentyFour will re-engage as necessary.

33. **Lendinvest** – Lendinvest are a UK Buy-To-Let mortgage lender. TwentyFour have engaged with Lendinvest to understand their approach in the current macroeconomic environment with rising rates, persisting high inflation and a cost-of-living crisis, impacting borrower's affordability, which could result in an increase in mortgage arrears. Lendivest has not made any material change to their underwriting criteria thanks to their existing conversative lending guideline. They stress interest coverage ratio at 5%

generally, in line with market standards and only consider rental income for the affordability assessment of the borrowers (no personal income is allowed). This means that higher mortgage interest rates have always been considered through the underwriting process and the current increase in rates does not present significant risk for borrowers. As funding costs have significantly increased over the past few months, particularly costs of hedging the mismatch between fixed rate mortgages and floating rate notes of the RMBS, Lendinvest has gradually increased its pricing. As a result origination volumes have dropped, in line with other peers in the market. Mortgage performance has so far remained stable. TwentyFour monitor closely the performance in the current climate as they expect some of the challenges faced with borrowers to materialise into deterioration of performance. TwentyFour continue to engage regularly with Lendivest to follow any changes in their lending strategy and look for early signs of increases in mortgages arrears.

Voting highlights

34. 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 January to June 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.

35. 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.

36. 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 Baillie Gifford or Acadian 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.

37. 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
BNP Paribas SA	Authorize Issuance of Equity or Equity-Linked Securities with Pre-emptive Rights	Dodge and Cox - FOR - In general, we have confidence in the abilities and motives of the Board and management of the company and typically will vote in accordance with them on this type of issue.	UBS - 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.
Charter Communications, Inc.	Disclose Climate Action Plan and GHG Emissions Reduction Targets	Dodge and Cox - AGAINST - A vote against this proposal is warranted given that the proponent is requesting the company provide emissions reduction targets and plans to reduce them which goes beyond a report or further data.	UBS - FOR - We will support proposals that seek to promote greater disclosure and transparency in corporate environmental policies as long as: the issues are not already effectively dealt with through legislation or regulation, the company has not already responded in a sufficient manner, and the proposal is not unduly burdensome or overly prescriptive.
Juniper Networks, Inc.	Amend Omnibus Stock Plan	Dodge and Cox - FOR - We typically supports measures which enable companies to attract and retain key employees and directors. We review each compensation plan to	UBS - AGAINST - Omnibus plan deemed to be too expensive or overly dilutive.

Table 1: Examples of instances where the Pension Fund's investment managers have voted differently			
Company	**Resolution**	**Investment Manager 1**	**Investment Manager 2**
		evaluate whether the plan overly dilutes shareholder value. We use two independent proxy research confirms which provide research on proxy issues as a source to help determine the dilutive effects of each plan. We favour plans which reward long-term performance and align management and shareholders' interests.	
Alphabet	Proposal 13 - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	Acadian – FOR - Shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.	Ballie Gifford – AGAINST - We are comfortable with the Company's current human rights-related disclosures regarding the concerns raised by the proponent over locations of Google Cloud Data Centres.

Climate Change Impact Assessments

38. 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.

39. 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).

40. 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
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	Shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.
ASAHI Net, Inc.	Management - Approve Restricted Stock Plan	Against	No specific performance hurdles are specified, and the restricted stocks become disposable in less than three years after this shareholder meeting by non-retiring recipients.
Berkshire Hathaway Inc.	Shareholder - Report on Climate-Related Risks and Opportunities	For	An assessment of the company's management of climate-related risks and opportunities would allow shareholders to better understand how the company is managing systemic risks posed by climate change and the transition to a low carbon economy.
Flowers Foods, Inc.	Shareholder - Report on Political Contributions and Expenditures	For	Reporting on the company's political contributions and policies would benefit shareholders in assessing its management of related risks.
Fujicco Co., Ltd.	Management - Elect Director and Audit Committee Member	Against	The nominee is a non-independent and less than one half of the Board are independent non-executive directors and the nominee is a non-independent member of the audit committee.
The Home Depot, Inc.	Shareholder - Report on Efforts to Eliminate Deforestation in Supply Chain	For	Shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation
UNIRITA, Inc.	Management - Approve Takeover Defence Plan	Against	The total duration exceeds three years, the board lacks sufficient independent monitoring, and the plan lacks a credible special committee.

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

Stock	Proposal	Vote	Rationale
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	We find that a wholesome human rights risk assessment with emphasis on misinformation and content management will be beneficial all stakeholders and may help identify gaps in current procedures.
Amazon.com	Shareholder - Environmental	Against	We opposed a shareholder proposal on packaging materials. Amazon has taken significant actions and provided substantial disclosure on environmental and packaging initiatives, and we do not believe that the action requested under this proposal is necessary.
Amazon.com	Shareholder - Social	Against	We opposed a shareholder proposal on worker health and safety differences. Amazon has agreed to carry out a diversity and equity audit and has assured us that the information requested under this proposal will be covered by that audit.
Amazon.com	Shareholder - Social	For	We supported a shareholder proposal on freedom of association. In light of several recent high-profile controversies, we believe that shareholders would benefit from a more thorough examination of the compliance of the company's policies and practices with international fundamental rights.
Amazon.com	Shareholder - Governance	For	We supported a shareholder proposal on lobbying. We have supported this proposal at Amazon.com for the last two years. We believe that the company's disclosure is lagging that of its peers, and greater transparency of all political expenditures and lobbying would enable shareholder to assess alignment with Amazon's values and corporate goals.
CATL 'A' - Stock Connect	Management - Articles of Association	Abstain	We abstained on the amendments to the Articles of Association as one amendment will grant power to the board to make external donations, with no information on how these donations will be used.
Meta Platforms Inc	Shareholder - Social	Abstain	We abstained on a shareholder resolution calling for an external human rights impact assessment. While we believe that this will add value to all stakeholders, we recognise the steps undertaken by the company, including the commitment to carry out an extensive risk assessment.

Stock	Proposal	Vote	Rationale
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution on risks of the use of concealment clause, as we think that additional disclosure on this provision will help the company to further improve its workplace practices.
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution requesting a report covering failures of community standards enforcement, as we believe that the proposal concerns a material topic for the company and such a report will help identify potential gaps in their control procedures.
Meta Platforms Inc	Shareholder - Social	For	We supported a shareholder resolution calling for a report on child exploitation as we believe this is in the best interest of shareholders.
Moderna Inc	Management - Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing the re-appointment of the auditors, where the fees for non-audit work are exceed the fee for audit work. We were comfortable with the justification in this instance and decided to support.
Netflix Inc	Shareholder – Governance	For	We supported a shareholder resolution for a report on lobbying payments and policy as we believe enhanced disclosure on these subjects is in shareholders' best interests.
Salesforce.com	Shareholder - Governance	Against	We opposed a shareholder proposal calling for an independent board chair as we are comfortable with the current governance structure.
The Trade Desk	Management - Remuneration	Against	We opposed the executive compensation due to concerns over the quantum and performance conditions attached to the large off-cycle grant made during the year.

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

Stock	Proposal	Vote	Rationale
AJ Gallagher & Co	Management - Remuneration	Against	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.
Amazon.com	Shareholder - Climate	Against	We opposed a shareholder proposal on aligning retirement plan options with climate action goals. We consider that the current options offer sufficient choice on this topic.
Amazon.com	Shareholder - Social	For	We supported a shareholder proposal on gender/racial pay. We have supported this proposal at Amazon.com for the last two years. We believe that women and minorities are underrepresented in leadership positions compared with the broader workforce, and reporting the unadjusted median gap would help to assess structural bias regarding job opportunity and pay.
B3 S.A.	Management - Elect Director	Against	We opposed a resolution to confer our votes on unknown directors should the slate of directors' change.
Booking Holdings Inc	Shareholder – Climate	Against	We opposed a shareholder proposal to incorporate climate change metrics into executive compensation arrangements because the company is already considering this and so we believe that this proposal is unnecessary.
Chegg	Management - Remuneration - Say on Pay	Abstain	We abstained on the resolution to ratify named executive officers' compensation due to a number of concerns including an annual performance period for the long-term incentive plan and the payment of one-off discretionary awards.
Cloudflare Inc	Management - Remuneration	Against	We opposed the executive pay due to concerns over the overall quantum and the lack of operational performance measures within the one-off option awards made to the co-founders.
Cloudflare Inc	Management - Incentive Plan	Against	We opposed the one-off option awards made to the co-founders due to concerns over the overall quantum and the lack of operational performance measures.
Elevance Health Inc	Shareholder – Governance	Against	We opposed the shareholder resolution to prohibit political funding as the company operates in a highly regulated sector, and we believe that doing so would not be in the best interest of shareholders.

Stock	Proposal	Vote	Rationale
Hoshizaki Corp	Management - Elect Director	Abstain	We opposed the election of the chairman due to the absence of a shareholder vote on the dividend.
Mastercard	Shareholder - Governance	Against	We opposed a shareholder proposal on a report on political contributions because we believe that the company has already taken sufficient action on this issue.
Mastercard	Shareholder – Governance	Against	We opposed a shareholder proposal on a report on the risks associated with the sale and purchase of ghost guns as the company already takes adequate action to ensure that its services are not used for illegal activities and purchases.
Moderna Inc	Management - Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing the re-appointment of the auditors, where the fees for non-audit work are exceed the fee for audit work. We were comfortable with the justification in this instance and decided to support.
Rio Tinto	Management - Climate Related	Against	We opposed the climate action plan. We believe that the company should make more ambitious commitments, including on its scope 3 emissions.
Thermo Fisher Scientific	Management - Remuneration - Say on Pay	Against	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Dodge & Cox – Global Stock Fund (global equities)

Stock	Proposal	Vote	Rationale
Aviva Plc	Management - Approve Climate-Related Financial Disclosure	For	Dodge and Cox will review management and shareholder proposals regarding social and environmental issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Charter Communications, Inc.	Shareholder – Report on Congruency of Political Spending with Company Values and Priorities	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. To the extent not addressed above, Dodge and Cox will review shareholder proposals regarding social, environmental and governance issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Charter Communications, Inc.	Shareholder – Disclose Climate Action Plan and GHG Emissions Reduction Targets	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. In this case, a vote AGAINST this proposal is warranted given that requesting the proponent is requesting the company provide emissions reduction targets and plans to reduce them which goes beyond a report or further data.
Cigna Corporation	Shareholder – Report on Congruency of Political Spending with Company Values and Priorities	Against	Does not relate to human capital or energy transition; past precedent of voting Against.
Comcast Corporation	Shareholder – Report on Omitting Viewpoint and Ideology from EEO Policy	Against	Not material and may cause reputational harm and/or increase the risk of litigation.
DISH Network Corporation	Shareholder – Report on Political Contributions	Against	Non-material and may cause reputational risk.

Stock	Proposal	Vote	Rationale
Meta Platforms, Inc.	Shareholder – Report on Lobbying Payments and Policy	Against	Not material and may cause reputational harm.
Occidental Petroleum Corporation	Shareholder – Report on Quantitative Short, Medium and Long-Term GHG Emissions Reduction Targets	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. The proposal is requesting that emissions reduction targets be set and is not only requesting for a report/data.
UBS Group AG	Management - Approve Climate Action Plan	For	Dodge and Cox will review management and shareholder proposals regarding social and environmental issues on a case-by-case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long-term value of the company.
Wells Fargo & Company	Shareholder – Adopt a Financing Policy Consistent with IEA's Net Zero Emissions by 2050 Scenario	Against	Dodge and Cox generally supports management's decisions regarding a company's business operations. Dodge and Cox expects management to identify and oversee financially material environmental, social, and governance risks and to disclose those risks to shareholders.
Wells Fargo & Company	Shareholder – Oversee and Report a Racial Equity Audit	For	Dodge and Cox generally supports management's decisions regarding a company's business operations. Dodge and Cox support shareholder proposals requesting information or data that enables us to better assess material financial risks to the company around social and environmental issues such as human capital, climate change, and energy transition.

UBS-AM – passive equities

Stock	Proposal	Vote	Rationale
ACC Limited	Management - Re-elect Martin Kriegner as Director	Against	Candidate is not considered independent and the Audit Committee is not made up of at least 2/3 independent directors.
Align Technology, Inc.	Management - Elect Director Joseph Lacob	Against	We do not regard the Board to be sufficiently independent, for which the chair of the nomination process is ultimately accountable.
Alphabet Inc.	Shareholder - Report on Risks of Doing Business in Countries with Significant Human Rights Concerns	For	The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.
ENGIE SA	Management - Approve Company's Climate Transition Plan	Against	We have some concerns on the company's transition plan, and the company has not committed to submit their climate strategy to a shareholder vote in the future.
Equinor ASA	Shareholder – Introduce a Climate Target Agenda and Emission Reduction Plan	For	We support the call for the company to set ambitious emissions reduction targets, in line with the objectives of the Paris Agreement.
The Home Depot, Inc.	Shareholder – Report on Steps to Improve Gender and Racial Equity on the Board	Against	The request for additional reporting is reasonable and would enable shareholders to have a better understanding of the company's approach.
The Weir Group 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.
Woodside Petroleum Ltd.	Management - Approve Climate Report	Against	The Company has not met our expectation in regard to Scope 3, and the use of offsets in the near-term.