Updated April 2023

Hampshire Pension Fund Statement of compliance with the UK Stewardship Code 2020

Purpose and Governance

Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.

Context

The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and its mission is to provide an efficient and effective pension scheme for all employees and pensioners of all eligible employers in Hampshire, in accordance with the requirements of the legislation for the LGPS. There were over 191,000 members from over 350 employer bodies in the scheme at 31 March 2022.

The Pension Fund has defined the following investment beliefs:

Investment belief	Reasons why important
Clear and well-defined objectives are essential to achieve future success	To provide focus in achieving the aims of generating sufficient returns, understanding potential risks, and ensuring sufficient liquidity to pay benefits to members
Strategic asset allocation is a key determinant of risk and return	An appropriate strategy is a key driver to future success and typically even more important than manager or stock selection
Funding and investment strategy are linked	Funding feeds into investment strategy decisions, including assessing what returns are required and by when
Long term investing provides opportunities for enhancing returns	The Pension Fund is less constrained by liquidity requirements and can better withstand short term price volatility, with the ability to tolerate periods of active manager underperformance when the manager's style is out of favour with the market.
The Panel and Board will take an appropriate level of risk[1]	There is a need to take risk to ensure the sustainability of the Fund whilst also continuing to be affordable to employers and members. However, the level and type of risk must be aligned with long term objectives.

[1] The Panel and Board is responsible for the governance of the Pension Fund and its investments

Equities are expected to generate superior long-term returns	The Pension Fund will maintain a significant allocation to equities in order to support the affordability of contributions.
Government bonds provide liquidity and a degree of liability matching	These assets reduce the Pension Fund's funding risks and also reduce liquidity risk in time of market stress.
Alternative investments provide diversification	Diversification across asset classes can help to reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics.
Fees and costs matter	This is about recognising the need to get value for money through minimising the negative impact of fees and costs whilst being willing to pay higher fees to access strategic opportunities or to achieve better or more consistent returns.
Market inefficiencies will provide opportunities to add value over time	Allowing specialist external investment managers the flexibility to take allocation decisions to take advantage of market opportunities.
Active management can add value	The selective use of active managers to target higher returns net of fees, using careful selection and monitoring of managers to minimise the additional risk.
Passive management has a role to play in the Fund's structure	Combining low cost passively managed investments alongside active management can have cost benefits and reduce relative volatility
Responsible Investment (RI) is important to the Panel and Board and can have a material impact on the long-term performance of its investments	Environmental Social and Governance (ESG) issues can impact returns meaning the Panel and Board needs to be aware of and monitor financially material ESG-related risks.

These beliefs are fundamental to the Pension Fund's investment strategy, as set out in its Investment Strategy Statement.

Activity

The Pension Fund Panel and Board holds four formal meetings per year in addition to receiving briefings from each of its appointed investment managers at least once per year. The Panel and Board has also constituted an RI sub-committee, which meets twice per year to provide greater capacity for the consideration of ESG issues and to enable additional scrutiny of investment managers.

Outcome

The Pension Fund's investment beliefs were key to the basis of the Fund's RI policy which was significantly revised in 2019 and again in 2022 following a full consultation with scheme members and employers. The Fund's new RI policy includes that it is based on the following beliefs and aim:

- RI considerations are important, particularly over the longer term to both protect and enhance long-term investment return and maintain alignment to stakeholders' values.
- RI considerations apply to all asset classes, but different asset classes may mean the management and implementation is different.
- Responsible management of RI Issues is a reputationally important issue.
- The Pension Fund expects the consideration of ESG factors to be incorporated into the portfolio construction process of all investments made by our investment managers.
- The Pension Fund views climate risk - and the issues which contribute to it - as a key risk to the Fund and of significant concern to all stakeholders (and understands that many have called this a Climate Emergency)
- As a result, 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.
- To address climate change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a just transition.
- The Pension Fund believes in engagement over divestment as the means to promote RI beliefs – however, choosing not to own an asset remains an option if the Pension Fund believes that ESG issues are not suitably addressed and that this would be supported by a significant majority of scheme members and employer.
- Exercising ownership rights through voting is an important plank of implementing this RI policy and this can be enhanced working collaboratively with other like-minded investors.

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.

Since the original redrafting of the policy, the Pension Fund has seen an increase in the level of interest in several aspects of RI, in particular Climate Change, over the last 4 years. The revised policy has enabled the Pension Fund to articulate its position on RI more clearly and thoroughly when responding to its scheme members. Through its interaction with scheme members, including consultation in 2022, the Fund is aware that its RI activities have not gone as far as a minority of members would like, particularly in relation to disinvesting from companies involved with producing fossil fuels. However, some positive feedback was received from one of the most vocal groups that had made representations to the Pension Fund following the adoptions of a net-zero target.

The Pension Fund has now published 4 years' worth of carbon footprint data for its investments, which shows a reduction since the original benchmark, following its five separate decisions to change the investment strategies or guidelines to reduce and limit the carbon output of five of its active and passive investment portfolios. This has been captured in a Task-Force on Climate Related Financial Disclosure (TCFD) report, that has fully adopted the proposals in the Department of Levelling-up Housing and Communities (DLUHC) consultation on reporting on climate risk.

Principle 2 – Signatories' governance, resources and incentives support stewardship

<u>Activity</u>

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). The governance and management of the Fund is the responsibility of the Pension Fund Panel and Board. The Panel and Board oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. This includes investment managers appointed through the ACCESS pool. The ACCESS pool comprises 11 LGPS local government administering authorities and was established in response to the UK government issuing its LGPS: Investment Reform Criteria and Guidance (2015). Through the Panel and Board, its RI sub-committee and the Director of Corporate Operations and his officers, there is sufficient resource and capacity to monitor and support stewardship activities.

To ensure that the members of the Pension Fund Panel and Board have the required knowledge and skills to fulfil their role, they undertake an annual training programme based on requirements identified from CIPFA's Knowledge and Skills framework. This includes training on RI; the Panel and Board have received training from the UN PRI, specialist RI consultants from MJ Hudson Spring and an officer from the Local Government Association.

The Pension Fund Panel and Board approves a budget each year that provides the appropriate resources; the officers responsible for the functions of the Pension Fund and means to commission external specialist support, for the management of the

Fund, including its responsible investment activities. The Pension Fund's officers participate in continuous professional development (CPD) as part of the County Council's staff performance management process. The Pension Fund's officers take advantage of training opportunities provided by investment managers and other providers, as well as the training provided to the Pension Fund Panel and Board, the content of each includes a significant amount of RI material.

Outcome

Routine written reports from investment managers on voting and engagement activity are received by the Pension Fund's officers on a regular basis. In addition, each appointed investment manager reports annually to the Pension Fund Panel and Board including on their activity in these areas. At each of their meetings the RI sub-committee receive a report on the investment managers' engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions.

To supplement its internal resources the Pension Fund has re-commissioned external support from the specialist RI consultants MJ Hudson to report on the ESG risk and exposure of each of the Pension Fund's investment portfolios and provide an independent calculation of the Fund's carbon footprint. This report assists the monitoring and scrutiny of the Fund's investment managers stewardship activities on behalf of the Pension Fund.

The County Council, responsible for the administration of the Pension Fund, has a corporate commitment to equality and diversity, and works to continue to build a workforce which reflects the diversity of the local community, encouraging applications from people of all ages, genders, sexual orientations and ethnic backgrounds. This is reflected in the team that delivers services for the Pension Fund.

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Activity

The Pension Fund's approach to conflicts of interest in relation to stewardship is part of its RI policy and is as follows.

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers. Third party advisors and investment managers may perform roles other than which they are employed for and to that extent conflicts may arise. The Pension Fund expects the investment managers and advisors it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available on their respective websites. These are discussed prior to the appointment of a manager/advisor and reviewed as part of the standard monitoring process.

Pension Fund Panel and Board members may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential stewardship of any investment made by the Pension Fund that could be a direct benefit to wider Council policy. To manage and mitigate these potential conflicts Pension Fund Panel and Board have agreed a Conflicts of Interest Policy and are required to complete a conflicts of interests declaration for the Pension Fund each year and are recorded in the Fund's Conflicts register.

Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund's investments. Details of the declared interests of Council members are maintained and monitored on a Register of Member Interests. These are published on the Council's website under each member's name and updated on a regular basis.

Outcome

Following the recommendation of the Scheme Advisory Board's (SAB) Good Governance review, the Pension Fund Panel and Board have agreed a specific Conflicts of Interest Policy for the Pension Fund. The Pension Fund's approach to managing conflicts of interest has operated as intended. For example, when appropriate the Pension Fund has noted before considering the following relevant issues that its independent advisor is a member of the board of Aberdeen Standard Fund Managers and a previous co-opted member of the Panel and Board is a member of the Trade Union UNISON. There have been no additional conflicts recorded as part of the completion of conflicts of interest declarations by the Pension Fund Panel and Board.

Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Risk is managed by setting investment beliefs, funding and investment objectives that are incorporated into the Fund's asset allocation outlined in its Investment Strategy Statement (ISS). The ISS is reviewed annually and a strategic review is undertaken after each triennial actuarial valuation of the Pension Fund.

The Pension Fund conducts a full risk assessment of its activities which is reviewed twice a year by the Pension Fund Panel and Board, as part of the Fund's Annual Report and in setting its Business Plan. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. Risks are identified with the input of the Pension Fund's actuary and investment consultants, as well as the Pension Fund's officers, who stay abreast of current events and potential risks through discussions with investment managers and peers, and seminars and conferences they attend as part of their ongoing professional development. In addition, the Pension Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns.

The Pension Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. At each of its meeting the Panel and Board receives a report on the allocation of investments and can take action to address any variances. Therefore, it is important the Pension Fund Panel and Board receives the appropriate training and commissions advice to be able to select from and monitor a wide variety of investments. The Pension Fund commissions investment consultancy advice for its strategic asset allocation and as a point of escalation if it has any concern over the performance of an asset class or one of its investment managers.

As global economies have moved on from the COVID-19 pandemic, the Pension Fund has focused on the risks and impacts of rising inflation and interest rates. The Fund's diversified portfolio has mitigated some of the worst market effects of 2022, although overall the Fund has suffered a loss of value. The Pension Fund Panel and Board and Fund officers have focused on scrutinising the Fund's investment managers analysis of the risks such as sensitivity to interest rates, whilst continuing to ensure that good stewardship is prioritised, even in challenging markets.

<u>Outcome</u>

Over 2022 the Pension Fund's approach to risk management was reviewed taking 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. The following summary takes key risks from the Pension Fund's risk register covering market wide and systemic risks and the actions that have been taken in the last year to manage these risks:

Employer covenant	The Pension Fund's Funding Strategy Statement reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.

	The Fund's officers and the actuary have responded to relevant market developments such as current economic challenges and the extent that this has damaged the covenant of any employers in the Fund and changes in the UK gilt yields that have impacted the affordability of contributions for higher risk employers.
Investment market performance	The Panel and Board have set a diversified asset allocation, based on specialist advice, which limits exposure to any one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage risk as they see fit. The Pension Fund's officers continue to monitor the value of the Fund's investments on a monthly basis, and these are reported to each quarterly meeting of the Pension Fund Panel and Board. Reports focus on both the investment performance of the Fund's investment managers and the implementation against the Fund's asset allocation. The Pension Fund's officers and Panel and Board have continued to engage with its investment managers, including through the ACCESS pool where relevant, to challenge and scrutinise investment managers. Discussions with investment managers focus on market wide and systemic risks such as inflation, unemployment, interest rates, government intervention in markets and other drivers of market sentiment. In the last year this engagement has heavily focused on the impact of higher inflation and interest rates, which has reduced the value of the Fund's investments over 2022.
Funding Strategy	At each triennial valuation and at quarterly updates, the Fund assesses its funding position and progress made to achieving/maintaining full funding. On an exception basis can take action to change the contributions required from employers or the Fund's investment strategy. The Fund's latest triennial valuation, as at 31 March 2022, was positive with the funding position moving over 100% for the first time.
Investment Strategy	An Asset Liability Study is undertaken on a triennial basis as part of reviewing the Fund's Investment Strategy. The Funding Strategy and Investment Strategy are reviewed on at least and annual basis. The Pension Fund has discussed with its investment consultant its support for the Paris Agreement and its aim for its investments to have net-zero green-house gas emissions by 2050 at the latest; and how these can be reflected in the review of its investment strategy.
Regulatory change	The Pension Fund monitors the current and new regulations and correspondence from the Department for Levelling Up, Homes and Communities (DLUHC) and Local Government Association (LGA).

	Officers keep up to date through participation in various scheme and industry groups and collaboration with other funds. The Pension Fund makes use of its Independent Advisor and external consultants to keep abreast of changes. The Pension Fund Panel and Board receive reports on regulatory developments and applicable consultations as appropriate. A number of pending developments are still expected from Government but yet to received including; the McCloud remedy for age discrimination in previous pensions benefit reforms, implementation of the Good Governance outcomes from the Scheme Advisory Board review and investment pooling. The Pension Fund engaged with DLUHC's consultation on Reporting on Climate Risk (TCFD reporting) and has based its latest TCFD report on the proposals set out in the consultation.
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 to 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 commissioned a consultant to provide independent verification of the carbon emissions data of its investment portfolios.

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

<u>Activity</u>

The Pension Fund began a significant review of its RI policy in 2018 forming a working group of the Panel and Board that took advice from Dr Rupert Younger - Chair of Oxford University's SRI Committee. Following the agreement of the updated policy in 2019, a further external review was carried out in 2020 as part of the commissioning of the specialist external RI consultant MJ Hudson. Recommendations from MJ Hudson were accepted to make the RI policy more comprehensive and readable.

In implementing the 2019 RI Policy the Pension Fund established an RI sub-committee that receives a report to each meeting on the investment manager's engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report is part of the sub-committee's published agenda and demonstrates the assurance that the Pension Fund is seeking for the stewardship activities undertaken on its behalf by the Fund's investment managers.

In the last year the Pension Fund has actively participated in the development of the ACCESS Pool's responsible investment guidelines and discussed its own approach to RI with the specialist consultant appointed by ACCESS. Given the developments in expectations and attitudes towards RI, in 2022 the Pension Fund proposed significant amendments to its policy, including that:

- 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 is taken to be no more than 1.5ºC) relative to pre-industrial levels is entirely consistent with securing strong financial returns, and
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition.
- That the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions (Scope 1, 2 and 3) by 2050 at the latest'
- If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold

them to account and to influence and support them in their move towards a lower-carbon economy. Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.

Outcome

The Pension Fund has prioritised engaging with scheme members and employers on RI. The RI sub-committee has specific actions in its Terms of Reference:

- to regularly review the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected;
- to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;
- to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.
- to report annually on the Pension Fund's Responsible Investment to demonstrate progress to the Pension Fund's stakeholders.

The RI sub-committee's first Annual Report on RI was published in April 2020. Following feedback received, for the following years' reports the Pension Fund commissioned the Council's Communication and Marketing team to assist with the publication and improve the format and clarity of the report to make it more accessible to the Pension Fund's scheme members.

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The Hampshire Pension Fund is a part of the Local Government Pension Scheme (LGPS). It is a defined benefit scheme responsible for the pensions of over 191,000 scheme members across over 350 scheme employer bodies. Of the members, over 48,000 are currently in receipt of their pensions and the average pension paid in the 2020/21 year was £4,927. Of the members not yet in receipt of their pension, over 61,000 are active members with a further 82,000 deferred members. The average age of contributors to the scheme was 45.8 years.

The majority of the employer bodies whose staff are members of the Pension Fund have strong covenants due to their status as public sector bodies. This means that the Pension Fund is able to take a long-term view when making investment decisions, helping the Pension Fund to achieve its investment aims. These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in primary contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

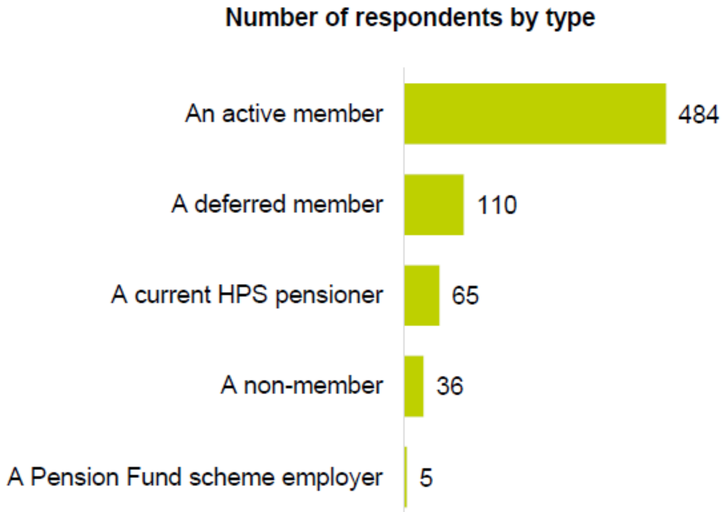
The Pension Fund has maintained a specific RI webpage that it keeps up to date with relevant information to explain the Pension Fund's approach to RI and provide details for stakeholders, including publishing the full voting records of the Fund's equity investment managers. The Pension Fund is invested in many companies through its investment managers meaning that voting records may not feel sufficiently accessible to some scheme members and voting and stewardship examples are therefore highlighted in the regular reports to the RI sub-committee. The Fund also has a specific RI email address for scheme members to use to share their views on any aspect of RI. These contact details are published on the Fund's website and are also shared with scheme members at other opportunities, such as in the publication of the annual RI update report.

Following a re-drafting of the RI policy in 2022 the Pension Fund then undertook an extensive 2 month consultation on the new draft policy by:

- Printing the RI annual update with the remaining paper payslips sent to pensioners in April 2022, which highlighted the consultation.
- All pensioners who received an electronic payslip via the member portal received an email reminding them their payslip was available, which also included notification of the consultation.
- Making the consultation available via the Pension Fund's website and adding a webpage banner for any scheme members logging onto the member portal.
- All active and deferred scheme members (that Pension Services held email addresses for) were sent an email with a link to the consultation.
- All of the Pension Fund's employers were sent an email highlighting the consultation and asking them to respond and share the consultation with their staff.
- The Director of Corporate Operations wrote to all the local authority Chief Financial Officers encouraging their organisations to respond.

Outcome

The Pension Fund received 701 responses to the consultation on the revised RI policy (by comparison in 2019 less than 30 responses were received). The chart below shows the breakdown of responses across the Fund's membership groups and shows a majority of respondents came from the Fund's active members.

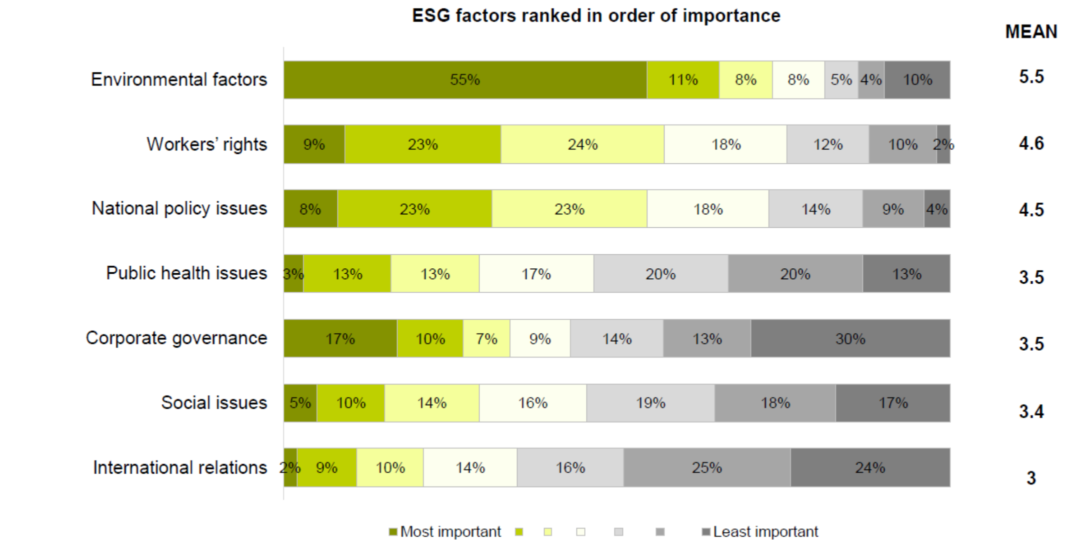


The consultation asked a number of questions to test whether the Fund's proposed policy on its climate change aim and approach to fossil fuel companies was clear and understood by respondents:

- At least 92% of respondents were aware of the 2021 United Nations Climate Change Conference (COP26), the UK Government's strategy for decarbonising (net-zero by 2050) and the 2015 Paris Agreement.
- 83% understood the rationale to aim for investments to have net-zero greenhouse gas emissions by 2050.
- 67% understood the rationale for not disinvesting from fossil fuel companies at this time.
- 85% understood the rationale for continuing to reduce the climate impact of the Fund's investments by disinvesting from Thermal Coal.

The responses showed that the Pension Fund's focus on Climate Change as its highest priority within the Environmental, Social and Governance (ESG) issues to be managed, is supported by being a clear priority for the majority of Pension Fund members as shown in the chart below showing scheme members ranking of ESG factors.

Updated April 2023



The Pension Fund records the engagement it receives from scheme members on RI matters. In meeting the RI sub-committee's action 'to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate' the communication that has been received is reported to the RI sub-committee. The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered.

Prior to the 2022 revisions to the RI policy, the Pension Fund Panel and Board received a number of deputations on RI, in particular on the issue of setting net-zero emissions targets and dis-investing from fossil fuel companies. The last deputation received in July 2022 following the publication of the Fund's amended RI policy, commented positively 'that the Pension Fund's attitude toward Responsible Investment had transformed in the past five years and its approach is now consistent with current good practice in this area, putting Hampshire in the top tier of schemes in the country'.

The Pension Fund reports the allocation, investment value and performance in its [Annual Report](#) as at 31 March 2022 for scheme members, which is summarised below:

Asset class	Regional exposure	Actual allocation	Strategic allocation
Growth			
Active Equities*	Global	29.2%	25.0%
Passive Equities*	Global	16.5%	11.0%
Private Equity	Global	6.3%	5.0%
		52.0%	41.0%
Income			
Multi-asset Credit	Global	9.0%	10.0%
Asset-backed Securities	Global	5.6%	2.0%
Private Debt	Global	3.6%	5.0%
Property	UK	6.9%	10.0%

Infrastructure	Global	4.9%	10.0%
		30.1%	37.0%
Protection			
Index-linked Gilts*	UK	17.2%	22.0%
Cash	UK	0.8%	0.0%
		17.9%	22.0%
Total		100.0%	100.0%

* invested via the ACCESS pool, which in total accounted for 63% of the Fund's investments

Investment Approach

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

As set out in its RI policy the Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to ESG. The PRI provides the following examples of ESG factors:

- **Environmental** - climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation.
- **Social** - working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety (including health inequalities), employee relations and diversity.
- **Governance** - executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy.

Activity

The Pension Fund's RI policy sets out by asset class how it expects its investment managers to integrate RI and stewardship into their investment decisions as follows:

Passive investment managers

The Pension Fund accepts that in making investments through an index, passive managers are unable to actively take ESG factors into account in deciding to hold an investment. However, the Pension Fund does expect its passive investment managers to act in its best interests to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the Pension Fund expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments.

Quantitative investment managers

The Pension Fund will only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors. Similarly, to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The Pension Fund delegates responsibility for making individual investment decisions (non-passive) to its active investment managers. In delivering their service to the Pension Fund, the Fund requires its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment. To ensure that ESG factors are considered in investment decisions, the Pension Fund uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- Detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco.
- Negatively contributing to Climate Change or other environmental issues, such as pollution and the use of plastic.
- The impacts of Climate Change.
- Poor corporate governance, systems of control and a lack of transparency.
- A senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests.
- The detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay.
- Dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk.
- Any outcome damaging to human rights.
- Reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.
- If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund requires that its investment managers integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once it has committed its investment it cannot control the investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect to quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

Manager Selection

The Pension Fund tendered for a number of its investment managers from 2015 to 2021. These tenders considered various aspects of prospective investment managers capacity and ability to integrate ESG factors into their investment decisions and the commitment to RI through adherence to standards such as the UK Stewardship Code and UNPRI.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Focus on how the Fund's investment managers have incorporated ESG factors gathered through their stewardship activities, into investment decisions, is a significant part of the monitoring and discussion with the Fund's investment managers. Examples include:

Portfolio	Twenty-four Asset Management – Asset-backed securities
Investment	Yorkshire Building Society (YBS) bond
Date of the last engagement activity	5 Oct 2022
What was the aim of the engagement	Following the government's proposal for all UK homes to have a minimum EPC rating of C from 2035 (2025 for private landlords), we engaged with YBS to understand • their plans to reach this target • what green products it offers to incentivise homeowner upgrades • when it plans to disclose Scope 3 financed emissions

	any plans to reinforce its net zero commitments through signing up to the Science Based Targets initiative (STBi) or the Net Zero Banking Alliance
What was the result of the engagement – what's changed	YBS plans to improve the average EPC rating of the houses on its mortgage book to C on owner occupied mortgages. They are looking to start offering green products in the near term. They didn't have a plan in place to report Scope 3 emissions but will now start considering it.
Was the engagement successful – if not what is the next point of escalation	We will continue to monitor progress made in the areas discussed and follow up in 6 months' time.

Portfolio	GCM Grosvenor - Infrastructure
Investment	US electricity transmission and distribution company
Date of the last engagement activity	Q3 2022
What was the aim of the engagement	Meeting with management to review ESG risks.
What was the result of the engagement – what's changed	The company has expanded its commitment to ESG progress over the past couple years due to new VP of Corporate Responsibility since 2021 which has led the enhanced strategic effort: updated ESG materiality assessments to identify gaps in performance and developed strategies to address these gaps. There are several notable areas of progress, including the expansion of ESG linked KPIs, updates to the Supplier Code of Conduct to reference material ESG topics.
Was the engagement successful – if not what is the next point of escalation	Yes - in 2023 the company will publish their inaugural Sustainability Report which will be reviewed and monitored.

Portfolio	Dodge & Cox – active global equities (part of the ACCESS pool)
Investment	Occidental Petroleum

Date of the last engagement activity	December 2022
What was the aim of the engagement	Governance, Environmental – Dodge & Cox spoke with the company and their portfolio companies to understand their energy transition investments, capital priorities and business strategy.
What was the result of the engagement – what's changed	Dodge & Cox had, and continue to have, conversations with Occidental on its climate strategy. At the Annual General Meeting (AGM) in May, Occidental received a shareholder climate proposal. They spoke about the proposal, and Occidental's current climate strategy. Based on our analysis, Dodge & Cox view Occidental as a leader in the industry in this space and believe that the direct air capture (DAC) technology they are investing in could be very beneficial to their business over the long-term. They believe that its current climate strategy and goals are adequate and think that its governing and reporting structure on climate are strong.
Was the engagement successful – if not what is the next point of escalation	Yes – Dodge & Cox communicated their views to the company and believe they adequately heard our voice.

Portfolio	Barings – Multi-asset credit
Investment	US Silica (a leading producer of commercial silica)
Date of the last engagement activity	January 2023
What was the aim of the engagement	To provide commitment and evidence of emission reduction efforts. Barings has requested more concrete examples of emission reduction efforts with the expectation to increase emissions reduction goals in line with peers who have set net-zero targets.
What was the result of the engagement – what's changed	Engagement remains ongoing. Barings will reach out to the company in the coming months to request an update on plans for increasing disclosure.
Was the engagement successful – if not what is the next point of escalation	Barings will evaluate progress made on plans for disclosure and target setting in relation peers. Barings will indicate this evaluation as part of future dialogue and highlight any areas for improvement.

Principle 8 – Signatories monitor and hold to account managers and/or service providers.

Activity

The Pension Fund requires its investment managers to report to them on a quarterly basis and meet with them regularly including presenting to the Pension Fund Panel and Board at least once a year. In addition, the creation of the RI sub-committee gives the elected members responsible for managing the Pension Fund additional capacity for engaging with its investment managers and holding them to account, specifically on RI issues. Should the Pension Fund Panel and Board or the RI sub-committee feel that they have not received satisfactory responses from any of its investment managers, the Committees can invite the investment managers back to allow them the opportunity to present again and answer further questions until acceptable responses are received.

Outcome

As set out in the Pension Fund's RI policy and as above for Principle 7, the Fund sets out specific expectations for how its investment managers manage ESG factors according to the asset class that they manage. To date the Pension Fund has received satisfactory responses from its investment managers to demonstrate they have acted in accordance with the Fund's policy.

In addition, the Pension Fund has recommissioned specific RI consultancy advice from MJ Hudson Spring on the ESG risks and exposures in each of the Fund's portfolios. This has given the Pension Fund better insight of which investment managers and portfolios they should give additional focus on to support their investment managers and the specific companies that it focuses on for evidence of engagement – this is reflected throughout this statement.

As already reported the Pension Fund's RI sub-committee receive a regular stewardship report on the investment managers' engagement and voting activity, highlighting where the investment managers have voted against company management or how they have voted on shareholder motions. This report demonstrates that the Pension Fund's investment managers have met the Fund's requirement to vote as a shareholder on its behalf and tests that can provide a reasonable rationale for how their votes have been cast if they have not followed the Fund's policy. As shown in the examples in Principle 7 the engagement reports include all of the Fund's investments in different asset classes, not just equities.

Engagement

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

Activity

The Pension Fund's RI policy includes the instruction to its investment managers that they work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards.

Outcome

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Pension Fund Panel and Board, RI sub-committee and the Pension Fund's officers, examples include:

Portfolio	Baillie Gifford active global equities (part of the ACCESS pool)
Investment	Rio Tinto
Date of the last engagement activity	October 2022
What was the aim of the engagement	Continue monitoring progress to strengthen ESG practices and reputation
What was the result of the engagement – what's changed	Baillie Gifford participated in two separate events hosted by the Chair, CEO and several senior managers, including the CEO of Australia. They learned more about its approach to rebuilding community and social relationships. They discussed workplace safety, given the critical Broderick Report published in January. The company provided early indicators of progress in safety and heritage, but Baillie Gifford want them to sustain these improvements. The engagement also offered additional insight into managing the complex climate-related risks and opportunities that Rio Tinto faces. Baillie Gifford were interested to learn that the role of Chief Scientist has been re-established to ramp up technical skills to help de-carbonisation.
Was the engagement successful – if not what is the next point of escalation	Rio Tinto is a complex business with a global footprint. From Baillie Gifford's recent engagements, they are encouraged by how the CEO and new Chair work together. Effective heritage, safety and climate management are critical challenges for the board. While there is progress, they are not matters that can be

	quickly or easily resolved by the board. Baillie Gifford's ESG specialists will continue to work alongside our investors to monitor progress. This approach aligns with Baillie Gifford's view of their importance in generating long-term financial returns for clients.

Portfolio	UBS – passive global equities (part of the ACCESS pool)
Investment	Multinational oil and gas company
Date of the last engagement activity	May 2022
What was the aim of the engagement	Further action to avoid future similar negative impacts as resulted from a 2020 incident that destroyed local cultural heritage.
What was the result of the engagement – what's changed	UBS discussed the importance their investors place on CO2 emissions reduction and the companies investments in renewables and hydrogen. UBS emphasized the importance of these measures even if they reduced financial returns. UBS also discussed progress against the IEA Net Zero scenario and the company's own more realistic scenario. The importance of continuing to reduce upstream output and the company using its downstream footprint to help customers decarbonize was also raised.
Was the engagement successful – if not what is the next point of escalation	Engagement continues but UBS are satisfied so far on the implementation of strategies and measures.

Portfolio	UBS – passive global equities (part of the ACCESS pool)
Investment	American pharmaceutical company
Date of the last engagement activity	December 2020
What was the aim of the engagement	Discussion of a range of governance issues
What was the result of the engagement – what's changed	The company has created a new role to interface on investors on ESG. UBS stated an expectation that a full 3-year performance period would apply to all long-term equity awards for Executive.

	Following shareholder proposals related to executive pay, the Board does not plan to make amendments to its remuneration as it believes that current pay framework ensures alignment with long-term interest. Nevertheless, Board is willing to understand investors' point of view on certain matters such as bonus banking (deferral). To date the company has previously not disclosed Equal Employment Opportunity (EEO) data due to concerns over accuracy (determinations of ethnic categories etc.) but this will be rectified in its next AGM report.
Was the engagement successful – if not what is the next point of escalation	Engagement continues – UBS believes the company is making progress on its governance framework and reporting but there is less progress on Executive remuneration as the Board appears to be satisfied that current frameworks provide good alignment with investors' long-term interest.

Portfolio	Dodge & Cox active global equities (part of the ACCESS pool)
Investment	Glencore
Date of the last engagement activity	October 2022
What was the aim of the engagement	Governance, Environmental and proxy engagement – Dodge & Cox's goal was to better understand Glencore's improvements on compliance oversight and climate strategy and evaluate its Say on Climate proposal. They also wanted to better understand Glencore's compensation practices and changes to its compensation plan
What was the result of the engagement – what's changed	Glencore updated the progress on the settlements of investigations and described the policies and programs to enhance compliance oversight. Glencore described the governance structure for its climate strategy, including outlining the role of the CEO in executing the strategy and articulating the oversight of the board. Glencore recognized that it could more explicitly disclose the board's role in its Say on Climate plan and aims to fix this disclosure issue in the future. Dodge & Cox received the level of information and comfort from a governance standpoint they needed to support Glencore's climate strategy proposal at the Annual General Meeting (AGM). Dodge & Cox will continue to review and work with Glencore on disclosure. Additionally, Glencore described its current compensation program and proposed changes. Dodge & Cox reiterated the importance of pay-for-performance and alignment with long-term shareholders. They also

	discussed a preference for key performance indicators (KPI's) rather than discretion when it comes to compensation evaluation by the companies we invest in.
Was the engagement successful – if not what is the next point of escalation	Yes – Dodge & Cox communicated their views to the company and believe they adequately heard our voice.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

As explained above and in the Pension Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Pension Fund's behalf.

Furthermore Hampshire is a member of the ACCESS pool, which it uses to access more than two thirds of its investments. The 11 partner funds in ACCESS have collectively pooled £35bn. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

In 2022 the Hampshire Pension Fund gave its support to the:

- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI), and
- Just Transition

This was in addition to the Pension Fund's existing membership of the Principles of Responsible Investment (PRI), all of which provide a platform for investors to advocate for responsible investment and good stewardship.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors or investee companies. Examples include:

Portfolio	JP Morgan Alternative Asset Management – Private Debt
Investment	North America trade show organiser
Date of the last engagement activity	Q4 2022
What was the aim of the engagement	Seek improvement in Diversity, Equity and Inclusion (DEI) across the organisation. The Fund connected the leadership team with the other portfolio company's CEO to develop an understanding of how to best incorporate similar ESG efforts.
What was the result of the engagement – what's changed	To date, the Company has updated its DEI statement and inclusion policy, revised its employee handbook, and changed its social media policy.
Was the engagement successful – if not what is the next point of escalation	The initial DEI actions are successful. The Company is in the process of putting together a more comprehensive program for all employees relating to the importance of DEI.

Portfolio	UBS – passive global equities (part of the ACCESS pool)
Investment	N American energy company
Date of the last engagement activity	September 2022
What was the aim of the engagement	Discussion of environmental management and climate change at a large scale group meeting with the Climate Action 100+ coalition with the company Chair and CEO.
What was the result of the engagement – what's changed	The company already have plans for net zero and are looking at ways to accelerate this, considering what a fast-track transition scenario might look like, and to improve communications on industry associations, and Just Transition.
Was the engagement successful – if not what is the next point of escalation	UBS have assessed the company's progress against its engagement objectives and determined that it fulfilled a vast majority of our expectations, registering "excellent" progress.

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

The Pension Fund expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate up to disinvesting from a position if engagement activities do not produce the desired result. Examples include:

Portfolio	GCM Grosvenor - Infrastructure
Investment	German chemical park owner/operator
Date of the last engagement activity	Q3 2022
What was the aim of the engagement	Meeting with management following an explosion and fire at one of the operator's sites.
What was the result of the engagement – what's changed	Since the accident, the management team and the business have focused on lessons learnt from this incident, working closely with authorities, noting that there are no current cases of wrongdoing associated with the business. The site has recently reopened following meticulously review and improvements with extensive expert examinations carried out in advance of the planned recommissioning. These results were corroborated by accredited laboratories and experts.
Was the engagement successful – if not what is the next point of escalation	Yes- the business remains centred on sustainability and supporting its customers with energy transition objectives. There is the creation of a new partnership with a major industry player to optimize the cooperation between their on-site steam-producing power plants. The aim of this initiative is to reduce emissions whilst simultaneously ensuring the best possible security of energy. The business participates in GRESB assessments and scored well in 2022.

Portfolio	UBS – passive global equities (part of the ACCESS pool)
Investment	S American energy company
Date of the last engagement activity	November 2022
What was the aim of the engagement	Discussion of greenhouse gas emissions, Net Zero, TCFD reporting, and Scope 3 targets. Aiming for longer horizon targets on Scope 1 and Scope 2 and the impact of a new government's impact on the climate strategy.
What was the result of the engagement – what's changed	Have set methane emissions intensity reduction targets. There is an increase in the ambition of the 2025 methane emissions intensity target, given that the company's currently reported level is already below the set target. Aiming for 0.2% emissions intensity by 2025 to be extended to joint ventures and non-operated assets. Executing against Oil and Gas Climate Initiative's Aiming for Zero Methane Emissions Initiative 2030. The company is currently assessing its date for a Net Zero target and is trying to clarify scenario planning, which reference scenario company issue. 2030 remains a key date for the mid-term metrics.
Was the engagement successful – if not what is the next point of escalation	Yes – concerns were acknowledged and the company will support an investors letter to the new government stressing its importance in these issues.

Exercising rights and responsibilities

Principle 12 – Signatories actively exercise their rights and responsibilities.

Context

The Pension Fund's RI policy includes its approach for exercising of rights attached to investments. This include the Fund's belief that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers, and that the principles accepted as best practice in the UK may differ globally. The Fund's investment managers should cast their votes with this in mind.

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

- executive directors are subject to re-election at least annually.

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

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow its policy.

Where investment managers were appointed directly by the Pension Fund to segregated mandates, the Pension Fund expected these managers to vote in line with its own voting policy or explain the rationale for doing otherwise. Similarly, for investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions and ultimately the Panel and Board has the option to disinvest if it is dissatisfied with the manager's decisions.

The Pension Fund allows its investment managers to conduct stock lending and has actively recalled lent stock for voting reasons on multiple occasions when advised by its investment managers.

Activity

The Pension Fund's policy includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible. The full voting record of all of the Fund's investment managers are published on its website Responsible investment | Hampshire County Council (hants.gov.uk).

The voting and engagement report to the RI sub-committee includes rationales provided by the Fund's investment managers for where they have voted against company management or how they have voted on shareholder resolutions. This report is published with the committee's agenda, the latest example is published here Report.pdf (hants.gov.uk)

The Pension Fund is discussing with its investment managers how it can maximise the exercise of its rights for fixed income investments.

Outcome

Following the RI consultancy advice that the Pension Fund received in 2022 that highlighted the companies in its investment portfolios posing the greatest ESG risk, starting with this statement in the examples shown above the Pension Fund will focus it engagement evidence on these companies that builds a picture of the outcomes that the engagement of its investment managers has achieved.