

**HAMPSHIRE**  
PENSION FUND

# Investment Strategy Statement

December 2023



**Hampshire**  
County Council

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# Introduction



Hampshire County Council is the administering authority for the Hampshire Pension Fund (the “Fund”), which covers employees of the County Council, two unitary councils, 11 district councils, and 335 other scheduled and admission bodies. The total number of contributors is 61,733 and there are 87,084 deferred members and 52,947 pensioners (all as of 31 March 2023).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

# Investment strategy

## The Fund has three main aims

- To manage the employers' liabilities to achieve long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund's 2022 Actuarial Valuation, the Fund's Actuary, Aon advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund's Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

## Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund's employers' covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy. For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation adjacent favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

	Minimum	Maximum
<b>Growth assets</b> – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds)	30%	60%
<b>Income assets</b> – Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit)	20%	50%
<b>Protection assets</b> – Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts)	10%	30%

## Suitability of investments and receipt of investment advice

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities

allocated to them. The members of the Panel and Board annually complete a training needs analysis based on CIPFA's Knowledge and Skills Framework for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified.

To fulfil the training needs of officers and members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

## Strategic asset allocation

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to



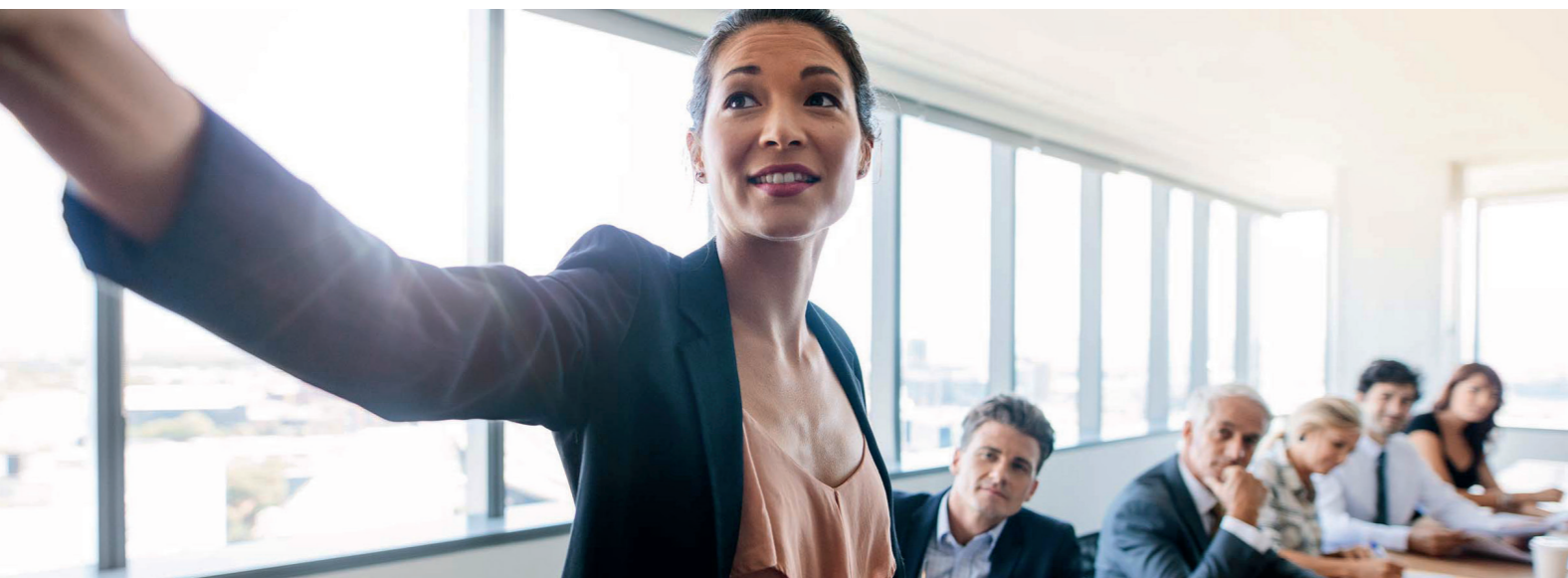
Investment sector	Position as at 31 March 2023	Long Term Strategic Asset Allocation
Growth	49.3%	38.5%
Income	32.4%	39.5%
Protection	18.3%	22.0%
<b>Total Fund</b>	<b>100.0%</b>	<b>100.0%</b>

excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of Fund

money to be invested in entities which are connected with the County Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2023 following the Fund's last triennial actuarial valuation and the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and



Fund by matching the value of the orphan liabilities to an equal amount of index-linked gilts from the Fund's investments. The Administering Authority currently operates a single investment strategy as outlined above, so the Fund Actuary notionally allocates index linked gilts to the orphaned liabilities within the valuation calculations, with the balance of the Fund's investment returns credited to the participating employers.

### Approach to risk

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies which is reviewed at least annually by the Panel and Board. The Pension Fund maintains a risk register to identify key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

Board and at least every three years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. The Fund's current investment managers are shown in Annex 2.

At the 2022 valuation 1.9% of the Fund's liabilities were orphan liabilities. The Administering Authority's policy is to minimise the risk to the participating employers in the

## Approach to pooling

Hampshire is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Suffolk
Hertfordshire	West Northamptonshire
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The first investments that were pooled are passively managed investments, and Hampshire also now has four active equity mandates and one multi asset credit mandate invested through the pool operator, Waystone Group (previously known as Link Fund Solutions). The Operator is currently working to launch further sub-funds throughout 2023/24 and ACCESS has commissioned further work to facilitate the pooling of other asset classes.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on the ACCESS website [www.accesspool.org](http://www.accesspool.org)

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Hampshire will not be pooling its allocation to directly held UK property (10% of its Strategic Asset Allocation).

As set out by the ACCESS funds in their July 2016 submission to the Government, there is a dis-economy in pooling direct property investments due to the cost (principally tax) of making changes to portfolios and the limited anticipated savings available from pooling.

In addition, Hampshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

## Responsible investment policy

### 1. Rationale, definition and beliefs

The Pension Fund's investment principles include:

- i. a long-term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.4%pa), and;
- ii. a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG) factors, which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community. This document sets out how the Fund's RI responsibilities are delivered in line with these principles.

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.





**This policy is based on the following key RI beliefs:**

- 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 2°C (which we take to be 1.5°C) 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**. This is in line with the UK Government's own target for net-zero emissions by 2050, and a number of employers in the Hampshire Fund declaring Climate Emergencies. The Pension Fund's aim is set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met. The Pension Fund is working with its specialist advisor, Apex Group (previously known as MJ Hudson), to develop a plan and trajectory for how it can achieve its Net-Zero aim.



## 2. Investment strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors that are actively considered as part of the Pension Fund's overall investment strategy; as part of the Fund's selection of its investment managers, how the Fund will scrutinise its investments and how it will transparently report on its investments based on these factors. This approach has been communicated to the Fund's investment managers who have confirmed they conform to this policy. The ability to consider and manage ESG issues will be part of the evaluation of investment managers and other suppliers to the Pension Fund, and forms part of the specification and contracts for services.

## Stock/Sector exclusions and social impact investments

The Pension Fund's primary policy is not to disinvest and prohibit its investment managers from investing in any particular company or sector. Where investment managers select companies either as part of active portfolios or passively as they are part of an index, the Pension Fund expects its investment managers to use the Pension Fund's influence as an investor to achieve the best outcome for investors on ESG issues.

The Pension Fund is aware that the issue of whether to disinvest is particularly relevant to climate change and investment in companies involved with fossil fuels. The Pension Fund does believe that climate change is of significant concern but that disinvesting from fossil fuel companies currently is not the solution:

- 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. The investors that would buy these shares from us may not do this.
- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.

- 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.
- The economy still relies on many carbon-intensive industries, for example manufacturing, mining, chemicals, cement and transport, and many people rely on products that are derived from fossil fuels for example plastic containers, synthetic clothes, and medicines. In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies the Fund can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

This also reflects the Government’s policy<sup>1</sup> to ‘encourage stewardship rather than disinvestment’. Government continues to believe this [disinvestment] would be the wrong approach – engagement with high carbon companies, when done effectively, can reduce the climate risk to which the scheme is exposed. At the same time, stewarding these firms to set a plan for the transition can have a greater impact on climate change than simply selling assets to others who might not hold investee firms to account’.

The Pension Fund’s focus is on measuring and reducing the carbon footprint of all the companies it invests in, not just fossil fuel companies, and working with its investment managers to find ways to reduce the overall carbon footprint in line with its aim to have net-zero emissions by 2050, whilst continuing to achieve the investment returns that are required to pay pensions.

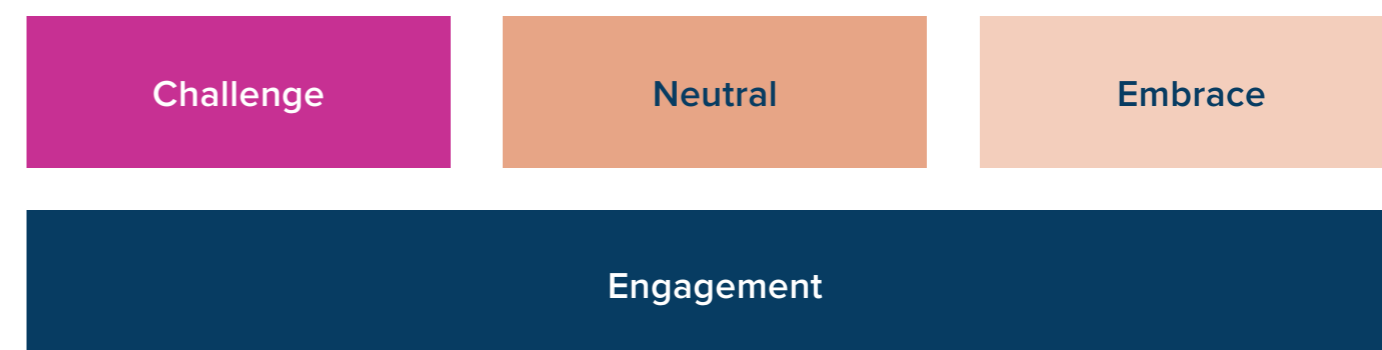
The PFPB will consider disinvestment or exclusion of a particular stock, industry or country or investment in specific ‘social’ investments where, based on an evaluation of ESG factors including the points above, it believes that the decision would be supported by a significant majority of scheme members and employers; the PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

Although the PFPB believes that most fossil fuels are still required currently to support the economy and the transition to a low-carbon world, this is except for Thermal Coal. This is the coal that is used to generate electricity, for which there are cleaner alternatives and therefore which is not necessary for the transition to a low-carbon economy. This is consistent with the agreement of more than 40 countries at the United Nations’ COP26 summit in Glasgow to shift away from the use of coal. The Pension Fund will work with its investment managers to remove this exposure from its investment portfolios.

### 3. Framework and approach

#### Consideration of ESG in investment decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.
- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers’ decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

<sup>1</sup> Local Government Pension Scheme investments, House of Commons Library CBP-7309.pdf (parliament.uk)

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

### Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

### Quantitative investment managers

These investment managers employ automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough

assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similar to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

### Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non-passive) to its active investment managers. All of the Pension Fund's active equity managers are invested in via the ACCESS pool, and over time, the Fund would expect that active managers for all asset classes are invested in via ACCESS. Investment managers in the ACCESS pool will be subject to ACCESS's RI guidelines, which accord with Hampshire's policy requiring its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

To ensure that ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

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

- detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco;
- negatively contributing to climate change or other environmental issues, such as pollution and the use of plastic;
- the impacts of climate change;
- poor corporate governance, systems of control and a lack of transparency;
- a senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests;
- the detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay;
- dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk;
- any outcome damaging to human rights;
- reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

### Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers 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 the Fund has committed its investment it cannot control the underlying 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 the quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.





### Responsible investment sub-committee

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

#### The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities.

- a. To review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected.
- b. To provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it.
- c. To engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy.
- d. To receive any relevant training on ESG issues.
- e. To review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate.
- f. To engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.
- g. To report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

### Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the County Council's website at [www.hants.gov.uk](http://www.hants.gov.uk). Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund's investments. Details of the declared interests of County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council's website under each member's name and updated on a regular basis.

### 4. Exercise of rights attaching to investments

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

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



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

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

The Pension Fund’s equities are available for Stock Lending, via the programme agreed as part of the ACCESS pool. The programme includes the provision for investment managers to recall stocks from the lending programme, should this be necessary voting at company meetings.

## 5. Monitoring, reporting and next steps

### Reporting

Scheme members were consulted on the original version of this RI policy in 2019. Any comments on ESG issues are reported to the RI sub-committee as a standing item at each meeting.

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

The reports of the investment managers on their consideration of ESG factors, their company engagement and collective engagement and shareholder voting will be viewed by the Pension Fund’s officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

The following table shows how the Pension Fund sets its policy and reviews its progress including complying with the various standards it has adopted.

	Frequency	Where to find it
<b>Strategies and policies</b>		
Investment Strategy Statement	Reviewed annually	Policies   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
Responsible Investment Policy	Reviewed annually	Policies   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
<b>External Reports</b>		
Annual Report and Annual RI Update	Annual	Annual reports and accounts   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
TCFD Report	Annual	Responsible Investment   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
UK Stewardship Code Report	Annual	Responsible Investment   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
PRI report	Annual	Results published in 2023
GRESB report	Annual	Reported to panel and board
<b>Internal reports</b>		
Stewardship report to the RI sub-committee	Bi-annual	Committee details – Hampshire Pension Fund Responsible Investment Sub-Committee   About the Council   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )
Investment manager voting reports	Quarterly	Responsible Investment   Hampshire County Council ( <a href="https://hants.gov.uk">hants.gov.uk</a> )



## RI standards

The Pension Fund supports and/or is a member of the following initiatives that aim promote RI for investors and positive changes in management of ESG factors:

- **UK Stewardship Code 2020** – The Pension Fund has been accepted as a signatory of the 2020 Code (one of only six initial LGPS signatories), which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund has produced a Stewardship Code statement that sets out on a ‘apply or explain’ basis how it meets the 12 principles of the Code [UKStewardshipcodecompliancestatement.pdf \(hants.gov.uk\)](#)
- **Principles of Responsible Investment (PRI)** – The Fund is a signatory to the PRI, which was founded by the United Nations and is the world’s leading proponent of responsible investment. In becoming a signatory the Pension Fund has committed to the PRI’s six principles for RI. More information can be found here: [About the PRI | PRI Wel’b Page | PRI \(unpri.org\)](#)
- **Pensions for Purpose** - The Fund is a member of Pensions for Purpose. Pensions for Purpose engages with pension funds and other institutional investors towards embracing impact investing. As a member the Fund has access to Pensions for Purpose services and member forums, where we will benefit from resources to guide the approach to impact investing. More information can be found here: <https://www.pensionsforpurpose.com>
- **Taskforce on Climate-Related Financial Disclosure (TCFD)** – the Pension Fund supports TCFD which aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks. The Pension Fund reports in line with recommendations of TCFD [TCFD-report.pdf \(hants.gov.uk\)](#)
- **Institutional Investors Group on Climate Change (IIGCC)** – The Fund is a member of the IIGCC. The Fund has made a public net zero commitment. As part of its membership the Fund benefits from educational materials, webinars, and the net zero framework, which will help the Fund achieve the target of net zero by 2050. More information can be found here: [www.iigcc.org](http://www.iigcc.org)
- **Transition Pathway Initiative (TPI)** – The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies’ preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level of management quality and carbon performance, to aid in risk assessment. More information can be found here: [www.transitionpathwayinitiative.org](http://www.transitionpathwayinitiative.org)

- **Just Transition** – A “just transition” means not transitioning to a low carbon economy at any cost but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support and uses the guide to help embed this goal within the Fund’s policies and help hold our investment managers to account. More information is available at the following link: [Investing in a just transition – global project – Grantham Research Institute on Climate Change and the environment \(lse.ac.uk\)](#)

The Pension Fund will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire’s RI policy.

## RI priorities for the coming year

The following topics have been identified as specific priorities for the coming year:

- Repeat of external assessment of the ESG risks and issues across the Pension Fund’s portfolio.
- Improvement of the Pension Fund’s RI webpage.
- Implementation of TCFD regulations for Local Government Pension Schemes, including continuation of expanding the availability of carbon data for the Pension Fund’s investments.





## Annex 1 – Investment beliefs

### Belief: Clear and well-defined objectives are essential to achieve future success

The Pension Fund Panel and Board is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

### Belief: Strategic asset allocation is a key determinant of risk and return

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

### Belief: Funding and investment strategy are linked

The Panel and Board understands that a number of funding related aspects feed into investment strategy decisions, including maturity and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel and Board.

### Belief: The Panel and Board will take an appropriate level of investment risk

As a long term LGPS Fund the Panel and Board acknowledge the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

### Belief: Long term investing provides opportunities for enhancing returns

The Panel and Board believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

### Belief: Equities are expected to generate superior long-term returns

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds.

The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

### Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

### **Belief: Alternative investments provide diversification**

The Panel and Board believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

### **Belief: Fees and costs matter**

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

### **Beliefs: Market inefficiencies will provide opportunities to add value over time**

The Panel and Board believe that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long-term target.

### **Belief: Active management can add value**

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

### **Belief: Passive management has a role to play in the Fund's structure**

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

### **Belief: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments**

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a RI Sub-Committee.

## Annex 2 – Current investment management arrangements

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
High-performance global equities	Waystone Group (Acadian Asset Management)	MSCI World Index	+1.5-2.5% net
	Waystone Group (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
	Waystone Group (Dodge & Cox).	MSCI ACWI	+1.5-2.5% net
	Waystone Group (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
Passive Global Equities	UBS Asset Management	FTSE All World Equity Index	
		FTSE RAFI All-World 3000	
		MSCI World Min Vol	
		MSCI World Quality	
Private equity	abrdn		+9%-11.5% net
Infrastructure	Grosvenor Capital Management		+7.5%-10% net
Private debt	JP Morgan Alternative Asset Management	SONIA	+4% net

## Annex 2 – Current investment management arrangements continued

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
Multi-asset Credit	Waystone Group (Alcentra)	SONIA	+3% net
	Barings	SONIA	+3% net
Passive UK index-linked bonds	UBS Asset Management	FT British Government Over Five Years Index-Linked Gilts Index	
UK property	CBRE Global Investors	Retail Price Index (RPI)	+3.5% net
Asset Backed Securities	TwentyFour Asset Management	SONIA	+2% gross



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