

AT A MEETING of the Hampshire Pension Fund Responsible Investment Sub-Committee of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Tuesday, 12th September, 2023

Chairman:
*Councillor M. Kemp-Gee

Vice-Chairman:
*Councillor T. Thacker

Elected members of the Administering Authority (Councillors)
*D. Hiscock *T. Davies

Employer Representatives (Co-opted members):

Scheme Member Representatives (Co-opted members):
Ms. L. Gowland

Observing
* Cllr A. Crawford

*present

45. APOLOGIES

Ms Gowland sent her apologies.

46. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

47. ELECTION OF CHAIRMAN

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

RESOLVED:

That Cllr Kemp-Gee was confirmed as Chairman.

48. **ELECTION OF VICE-CHAIRMAN**

The Chairman proposed Cllr Thacker as Vice-Chairman.

RESOLVED:

That Cllr Thacker was confirmed as Vice-Chairman.

49. **MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 2 March 2023 were confirmed.

50. **CHAIRMAN'S ANNOUNCEMENTS**

Cllr Kemp-Gee welcomed Cllr Crawford to the meeting as an Observer.

The Chairman confirmed that the Pension Fund Panel and Board still needed to appoint an Employer Representative and substitute Members to the sub-committee, which would be addressed at the Panel and Board's September meeting.

51. **DEPUTATIONS**

No deputations were received.

52. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 8 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning ESG issues.

Since the sub-committees last meeting a County Councillor (not a member of the Pension Fund Panel and Board) received an email from a resident advocating that the Pension Fund disinvests from fossil fuels. A response was provided that reiterated the Fund's RI policy of why it believes it is better to remain invested and engaged with fossil fuel companies where investment managers have selected them in the Fund's investment portfolios.

The Assistant Director received an email from a scheme member highlighting recent research published by The Carbon Tracker Initiative. The research warned that pension funds are risking their investments by under-estimating the impact of global warming in scenario analysis commissioned from investment consultants and actuaries. The Director reported that this will be raised with the Pension Fund's actuaries and consultants, the next time that scenario analysis is commissioned.

53. STEWARDSHIP HIGHLIGHT REPORT

The RI Sub-Committee received and noted the report from the Director of Corporate Operations (Item 9 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in and engaged with company management. The Pension Fund is a signatory to the UN Principles for Responsible Investment and the UK Stewardship Code and as such recognises its role of promoting best practice in stewardship, which is considered to be consistent with seeking long term investment returns.

The analysis showed that the majority of votes cast against companies' management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

It was noted that the full details of how votes have been cast for the Pension Fund was published on its RI webpage: <https://www.hants.gov.uk/hampshire-services/pensions/responsible-investment>

The Director's report also included a number of examples of the company engagement activities that the Pension Fund's equity and multi-asset credit investment managers had undertaken. The examples deliberately focused on investments that had been highlighted as an Environmental, Social or Governance (ESG) risk by the Fund's RI consultants.

54. SUSTAINABLE INVESTMENTS

The RI Sub-Committee received a report from the Director of Corporate Operations (Item 10 in the Minute Book) reporting on the Pension Fund's sustainable investments in its alternative investment portfolios (private equity, private debt and infrastructure). To date it has been difficult to quantify the Pension Fund's alternative investments (private equity, private debt and infrastructure) contribution to managing climate change because the availability of carbon data for these types of investments is lagging listed investments, although this is slowly improving. However due to their ability to invest in early stage and smaller enterprises, as well as real assets, alternative investments are ideally suited to make sustainable investments.

The Pension Fund's officers have asked the Fund's alternative investment managers to identify the investments in their current portfolios that would meet sustainability objectives. The investment managers were then asked what proportion of sustainable investments they could get to in their portfolios by 2025/26 without compromising their ability to meet Hampshire investment targets. Of the Pension Fund's combined 22.5% allocation to alternative investments 3.5% of the total Pension Fund is currently invested in sustainable investments (£313m as at 31 March 2023).

The Director reported that the Fund's sustainable investments include 0.6% (£52m as at 31 March 2023) of investments in the UK, which would count as investment in the Levelling-Up agenda, plus a further £40m in the Fund's UK property portfolio. The Pension Fund's alternative investment managers have confirmed that they could grow the sustainable investments in their portfolios to a combined 7% of the total Pension Fund by 2026. This is an initial step for the Fund for the first time establishing a target for sustainable alternative investments.

Beyond 2026 the target can be revisited with the investment managers in the expectation of further increases.

RESOLVED:

To recommend to the Pension Fund Panel and Board that it agrees the aims set out in this report for the Fund's three alternative investment portfolios to increase their allocations to sustainable investments as follows by 2026:

- Private Equity - 20%
- Infrastructure – 50%
- Private Debt – 10%.

Chairman, 1 March 2024