Hampshire Pension Fund

Statement of compliance with the UK Stewardship Code 2020

Hampshire County Council

hants.gov.uk

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 201,000 members from 349 employer bodies in the scheme at 31 March 2023.

The Pension Fund has defined the following investment beliefs:

Investment belief	Reasons why it is 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.

Investment belief	Reasons why it is important
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.
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.

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

Administered and hosted by Hampshire County Council as the Administering Authority a number of the County Council's visions and values are reflected in the culture and values[2] of the Pension Fund, in particular:

- **Integrity and respect** – is integral to the Pension Fund's internal operations and the activities undertaken by the Fund's suppliers and the companies the Fund invests in. The Pension Fund expects its dealings with its staff, scheme members (customers) and the public, to all be undertaken with integrity and respect.
- **Professionalism** – is a core value for the team that manages the Hampshire Pension Fund in all aspects of its responsibilities; administering members benefits, managing the Fund's investments and the overall governance of the Fund. Similarly, it is a key expectation for the suppliers and investment managers that the Fund chooses to work with
- **Making a difference** – the Pension Fund embraces the opportunity that being an asset owner offers for it to make a difference, both in the investments that are chosen and the stewardship and engagement that influences the way that investee companies behave
- **Continuous improvement** – reflects the Pension Fund's recognition that it can always improve and this is no more true than in regard to its work on responsible investment. Through the work of the Pension Fund's Responsible Investment (RI) sub-committee, collaboration with the ACCESS pool, use of specialist advisors and commitment to various industry standards (including the Stewardship Code) the Fund looks to identify areas for improvement

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)

2 extra.hants.gov.uk/employee/policy-guidance/valuing-performance/vision-and-values

- 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^{o}C (which we take to be 1.5^{o}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 employers

- 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.

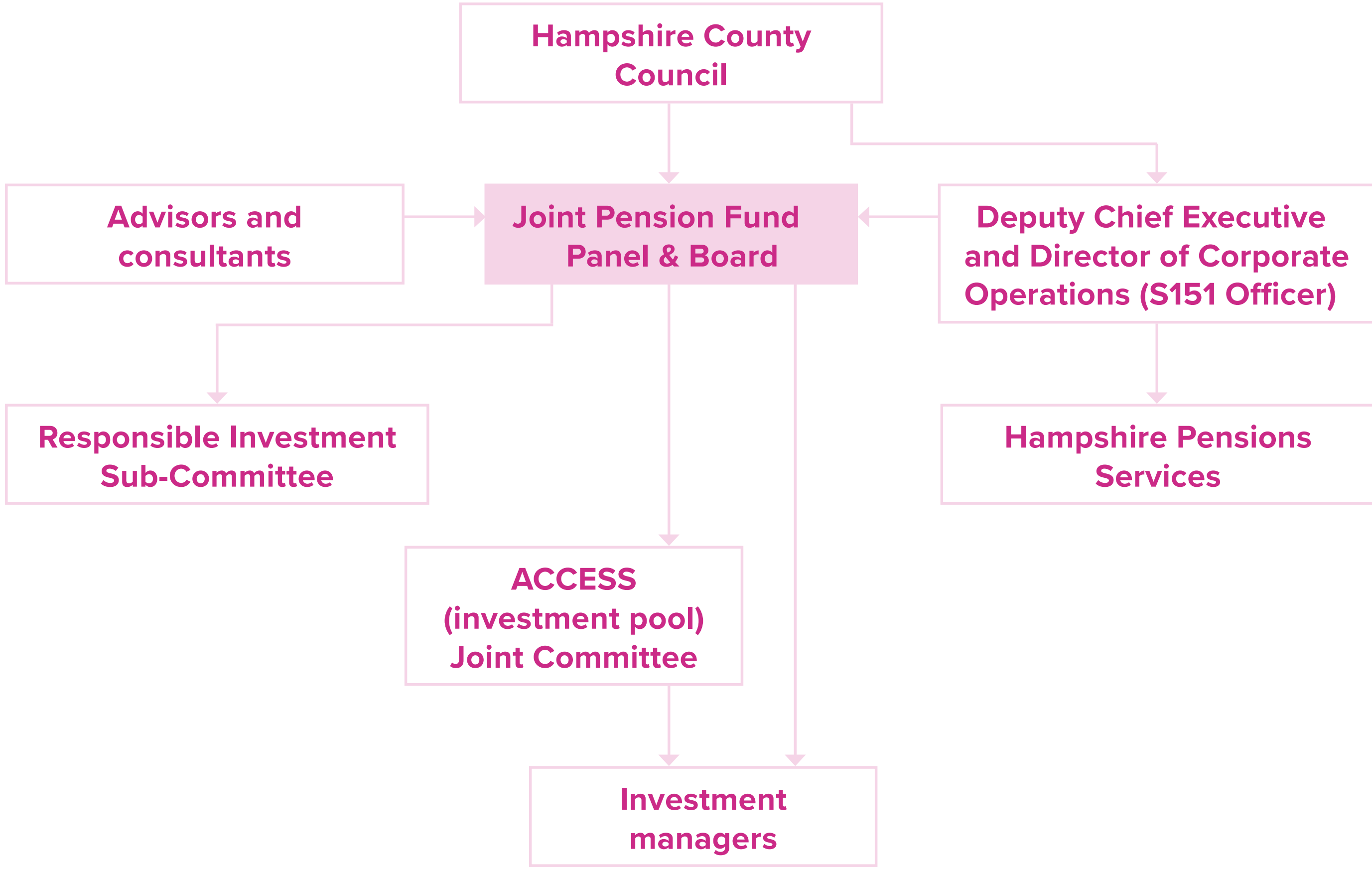
Since the original redrafting of the policy, the Pension Fund has seen an increase in the level of interest in several aspects of RI, in particular Climate Change, over the last 5 years. The revised policy has enabled the Pension Fund to articulate its position on RI more clearly and thoroughly when 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 5 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

Activity

Hampshire Pension Fund governance diagram



Hampshire County Council is the Administering Authority of the Pension Fund and has the statutory responsibility for the management of the Fund, including its responsible investment activities.

The County Council delegated responsibility for the management of the Pension Fund to the **Joint Pension Fund Panel and Board** that carries out a similar role to the trustees of a pension scheme and the members of the Panel and Board are the key decision makers for:

- Investment strategy
- Monitoring investment activity and performance
- Overseeing administrative activities
- Guidance to officers in exercising delegated powers

The Pension Fund Panel and Board has established a specific **Responsible Investment sub-committee** in order to provide additional capacity for the consideration of the Pension Fund's activities as a responsible investor and the views of scheme members and employers.

The **Deputy Chief Executive and Director of Corporate Operations** is the most senior officer responsible for the functions of the Pension Fund. The Director manages a team of officers in **Hampshire Pension Services** that support the Pension Fund Panel and Board and deliver the day-to-day functions of the Pension Fund. The Director is also responsible for commissioning the necessary **Advisory and Consultancy** support for the Pension Fund Panel and Board.

Hampshire is a member of the **ACCESS pool** comprising 11 LGPS local government administering authorities and was established in response to the UK government issuing its LGPS: Investment Reform Criteria and Guidance (2015). Hampshire's own governance structure and the choice of joining the ACCESS pool and the way that ACCESS is governed are well reflected in ACCESS's objectives, to:

- Enable Funds to execute their fiduciary responsibilities to LGPS stakeholders
- Provide a range of asset types necessary to enable Funds to execute their locally decided investment strategies
- Enable Funds to achieve the benefits of pooling and create the desired level of local decision-making and control

The ACCESS pool is responsible for the appointment of the Fund's **investment managers** (although the Fund retains a minority of investment manager relationship while the transition to pooling continues) currently through the pool's Operator – Waystone (WS) for listed active investments and UBS for passive investments. All of the Pension Fund's investments are managed by specialist external investment managers, which the Pension Fund Panel and Board believes is the most effective way to manage the Fund's investments to achieve the returns necessary to pay pensions.

Through the Panel and Board, its RI sub-committee and the Director of Corporate Operations and his officers, and the advisors, consultants and investment managers serving the Pension Fund 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 as well as the Fund's senior officers have received training from the UN PRI, specialist RI consultants from Apex and an officer from the Local Government Association, and attend various industry events where discussion of RI is a major feature such as conferences arranged by the Local Government Chronicle and the Fund's investment managers.

The Pension Fund Panel and Board approves a Business Plan and 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 in-house team includes three qualified accountants, two of which with over ten years of experience working for the Pension Fund who deliver the Fund's day-to-day stewardship work researching ESG issues, discussing these with investment managers, responding to questions from the Panel and Board members and scheme members and producing the reports for these stakeholders. 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 such as the LGPS Scheme Advisory Board (SAB), as well as the training provided to the Pension Fund Panel and Board. The Pension Fund has recently joined Pensions for Purpose providing another source of RI training and information for Pension Fund officers.

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 receives 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 Apex 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. The Council's commitment includes the support for specific role models, champions and support groups, and a zero tolerance policy for Harassment, Discrimination, Bullying and Abuse, which supports the Council's membership of the Inclusive Employers group[3].

3 Our Members - Inclusive Employers

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 the Pension Fund Panel and Board has agreed a Conflicts of Interest Policy and members of the Panel and Board are required to complete a conflicts of interests declaration for the Pension Fund each year and any conflicts 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

Hampshire County Council and the Hampshire Pension Fund encourages a culture of openness and transparency ensuring that all persons involved in the Fund have a clear understanding of their role and the circumstances in which a conflict may arise. 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. This is in addition to the members of the Pension Fund Panel and Board's legal obligation to abide by the requirements of the Localism Act 2011 and Hampshire County Council's Constitution relating to the treatment and disclosure of certain pecuniary interests, including any that may affect the stewardship of the Fund's investments.

The Fund's Conflicts of Interest Policy equally applies to officers taking decisions in relation to the Pension Fund and third parties providing advice and services to the Administering Authority in relation to the Pension Fund.

The Pension Fund's approach to managing conflicts of interest has operated as intended. In previous years following two actual conflicts have been recorded by the Pension Fund through the course of its business:

- The Pension Fund's independent advisor has declared she is a member of the board of Aberdeen Standard Fund Managers
- A previous co-opted member of the Panel and Board recorded their membership of the Trade Union UNISON

Both of these conflicts were mitigated by both individuals offering to remove themselves from any discussions or decisions where the Pension Fund Panel and Board felt that they may have been conflicted. 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. Activities undertaken to identify and respond to market-wide and systemic risks include:

- Ongoing training of the Pension Fund Panel and Board in relation to potential risks
- Full triennial asset liability modelling which assesses exposures to market fluctuations, interest rates, currency and credit quality amongst others. In addition, for the first time in 2023 this included scenario analysis of the impact of different potential global temperature rises
- Quarterly monitoring of market returns and risks and investment managers (including the ACCESS Pool). This has included a review of the implications of rising/ persistent inflation and the ongoing geo-political tensions
- Regular engagement sessions with investment managers including their stewardship and RI capabilities to ensure they are managing the Fund's exposure to ESG risks, including systemic risks such as climate change. This includes the monitoring of climate metrics to understand the Fund's exposure to these risks through annual TCFD reporting
- The Fund works with its Pool provider to ensure that it also has a risk management strategy in place and that it is monitored and regularly assessed
- The Pension Fund Panel and Board works with its independent advisor, investment consultant Hymans Robertson, and specific RI Consultant (Apex) in the identification and management of these risks

The Pension Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. At each of its meetings 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.

Outcome

Risks are 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.
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: implementation of the Good Governance outcomes from the Scheme Advisory Board review and investment pooling guidance. When applicable the Pension Fund responds to consultation requests, for example the recent 'Next steps on investment (pooling)' 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.

ESG risk	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.
Climate Change	The Pension Fund has business continuity procedures in place to enable the provision of service in a disaster situation. The Pension Fund has a diversified investment strategy to mitigate exposure to a single asset or event. The Pension Fund monitors the carbon footprint of its investments and has a target that its investments should have net-zero greenhouse gas emissions by 2050 at the latest. The Fund has committed investing a proportion of its non-listed investments in sustainable and impact investments, some of which are contributing to the transition to the low carbon economy.

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

Activity

The Hampshire Pension Fund firmly believes reviewing policies and processes is crucial to the effective implementation of its RI activities. Regular reviews keep the Pension Fund up to date with regulations and best practice and ensures that its policies are consistent and effective. The Pension Fund's business plan has explicit objectives related to its responsible investment approach that are evaluated and renewed each year. The Fund believes that this is in an appropriate interval to ensure its policy keeps up with any external changes such as changes in regulation or industry best practice and can reflect the current views of scheme members. The Pension Fund's RI policy forms part of its Investment Strategy Statement (ISS) which is formally reviewed each year by the Pension Fund Panel and Board. This fulfils the Pension Fund's regulatory responsibility to review its policies at least annually and provide the assurance that policies are up to date and reflect the latest best practice.

Given the growing prominence and developments in RI, typically every two years, the Fund has sought an external review and input into its RI policies. The Fund believes this is important to ensure an injection of fresh ideas, independent challenge and that it keeps pace with best practice. These external reviews have tended to result in the larger developments in the RI policy, the major milestones for which have been as follows:

Beginning in 2018 the Panel and Board formed a working group 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 Apex. Recommendations from Apex were accepted to make the RI policy more comprehensive and readable.

Following further review to reflect changes in expectations and attitudes towards RI, and advice from an external consultant (who was also providing advice to the ACCESS pool) 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 2°C (which is taken to be no more than 1.5°C) relative to pre-industrial levels is entirely consistent with securing strong financial returns
- 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

In addition to the feedback received on its Stewardship Code annual report the Pension Fund is a signatory to the UN PRI and reports on its Responsible Investment activity through the PRI's reporting framework annually, which provides further feedback on the Fund's effectiveness as a responsible investor.

Outcome

In implementing the 2019 RI Policy the Pension Fund established an RI sub-committee that receives a report to each meeting 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 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.

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.

The RI sub-committee has a key role in ensuring that stewardship reporting is fair, balanced and understandable. This responsibility falls initially on the Pension Fund's officers in collating and challenging the stewardship reports that are received from the Fund's investment managers. Examples of stewardship reporting are presented at each meeting of the RI sub-committee for their scrutiny and to test that the reporting is fair, balanced and understandable. Following feedback from specialist RI consultants the Fund commissioned, the Pension Fund's stewardship reporting will consistently focus on investments with the highest ESG risk (as well as other pertinent examples) so it can better track progress and monitor effectiveness.

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 201,000 scheme members across 349 scheme employer bodies. Of the members, nearly 53,000 are currently in receipt of their pensions and the average pension paid in the 2022/23 year was £4,978. Of the members not yet in receipt of their pension, over 61,000 are active members with a further 87,000 deferred members. The average age of contributors to the scheme was 45.4 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 communicates and receives feedback from its stakeholders in a variety of ways including:

- All key Fund policies are consulted on with key stakeholders and published on the website
- Pensioner, scheme member and employer newsletters
- Employer briefing and training sessions, including and Annual Employer Meeting
- All Panel and Board and RI sub-committee meetings are open to the public and agenda papers are published
- Both the Panel and Board and RI sub-committee have employer and scheme member representation with full voting rights
- Responding to stakeholder investment related enquiries with the offering of a specific RI email address
- A specific RI webpage that it keeps up to date with relevant information to explain the Pension Fund's approach to RI including links to relevant policies and reports such as the Fund's Stewardship Code report and TCFD report

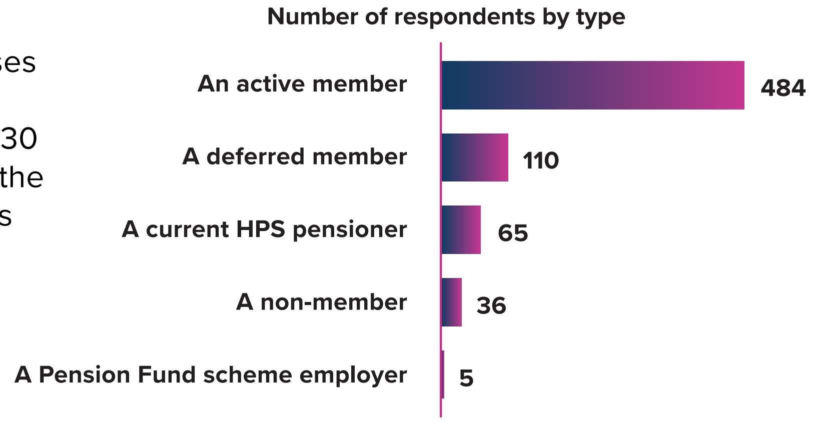
The Pension Fund's RI webpage is the Fund's format for publishing the full voting records of the Fund's equity investment managers. The Pension Fund is invested in many companies through its investment managers meaning that voting records may not feel sufficiently accessible to some scheme members and voting and stewardship examples are therefore highlighted in the regular reports to the RI sub-committee.

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. The Fund took advice from the County Council's engagement team and ensured that the consultation followed the Council's best practice for consultation. The Fund's approach to the consultation was a significant increase in its reach from previous exercises and was the Pension Fund's best cost-effective attempt to reach the maximum scheme members and employers 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

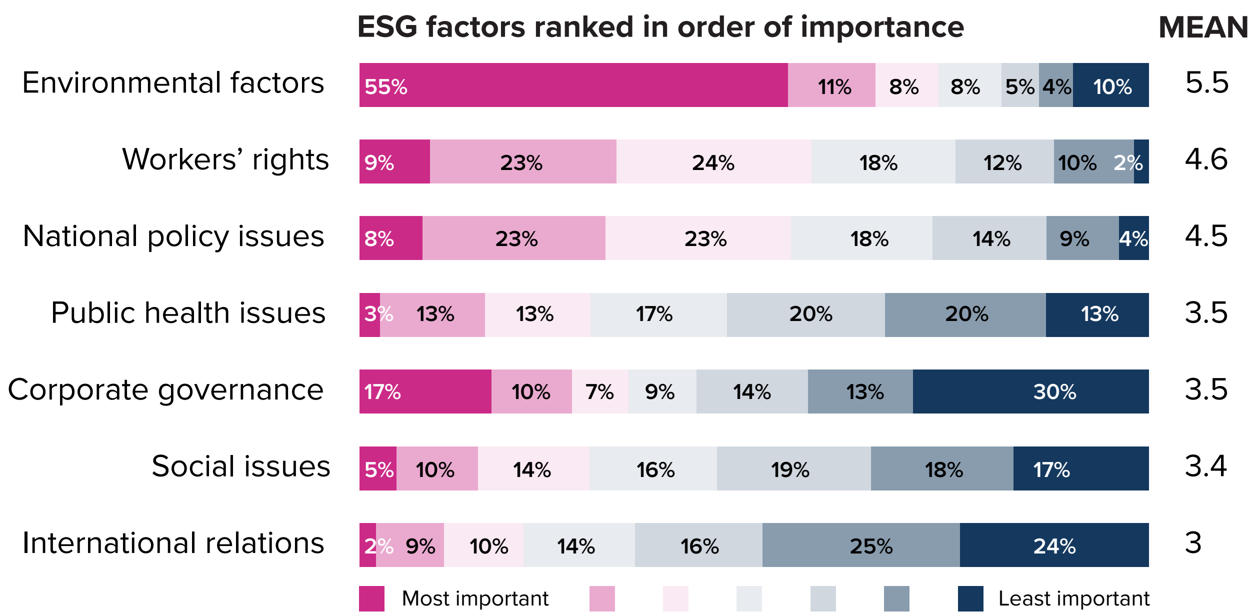
The Pension Fund received 701 responses to the consultation on the revised RI policy (by comparison in 2019 less than 30 responses were received). The chart to the right shows the breakdown of responses across the Fund's membership groups and shows a majority of respondents came from the Fund's active 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. A focus on action on Climate Change continue to be a focus of the Fund's reporting, including this report, shown by the majority of engagement examples shown later in the report, focusing on Climate Change.



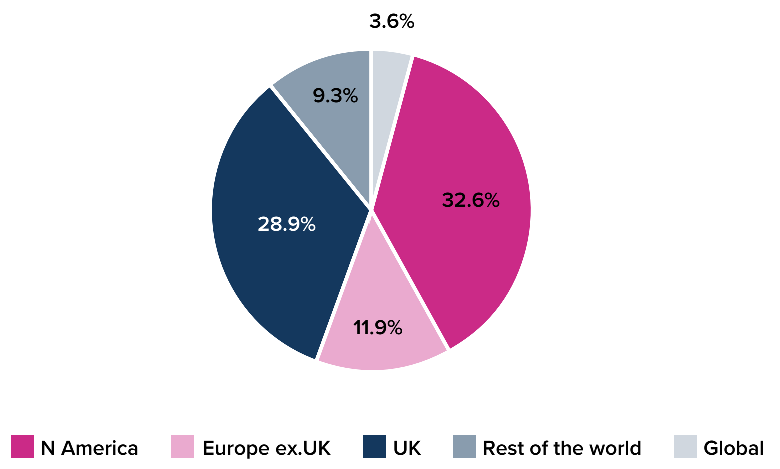
The Pension Fund records the engagement it receives from scheme members on RI matters. In meeting the RI sub-committee's action 'to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate' the communication that has been received is reported 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. Following the consultation in 2022 and the changes to the Fund's RI policy a deputation to the Pension Fund Panel and Board 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'. Following the consultation in 2022 the Pension Fund experienced a lull in correspondence from scheme members in relation to RI, however most recently this has picked up again, particularly in relation to fossil fuel investments. In 2024 the Pension Fund Paned and Board will further investigate how its stewardship ambitions match with holdings in fossil fuel companies and its future options.

The Pension Fund reports the allocation, investment value and performance in its Annual Report as at 31 March 2023 for scheme members, which is summarised below:

Hampshire Pension Fund		2023 strategy %	Actual allocation %
Growth			
Equities	WS – Acadian	5.5%	7.2%
Equities	WS – Baillie Gifford LTGG	6.0%	7.8%
Equities	WS – Baillie Gifford GAPA	4.0%	6.4%
Equities	WS – Dodge & Cox	5.5%	8.3%
Equities – passive	UBS - Emerging Markets		0.3%
Equities – passive	UBS - Climate Aware	3.0%	3.0%
Equities – factor	UBS - factor mix	7.0%	9.0%
Private Equity	abrdn	7.5%	7.6%
		38.5%	49.6%
Income			
Multi-asset credit	WS - Alcentra	5.5%	5.2%
Multi-asset credit	Barings	4.5%	4.1%
Asset-backed securities	Twentyfour AM	2.0%	3.3%
Timberland		2.5%	0.0%
Private Debt	JP Morgan	5.0%	5.1%
Property	CBRE	10.0%	6.7%
Infrastructure	GCM	10.0%	8.1%
		39.5%	32.6%
Protection			
Index-Linked Gilts	UBS	17.0%	17.3%
Inv-grade Credit		5.0%	0.0%
Cash	Internal	0.0%	0.5%
		22.0%	17.8%
Total Fund		100.0%	100.0%

Hampshire Pension Fund - Geographical Exposure



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.

The Pension Fund recognises in that passive investment can have limitations in implementing best practice responsible investment and stewardship, in particular not having the ability to disinvest as an ultimate sanction for a company that is felt to have fallen short of the required standards. For this reason in March 2023 the Pension Fund Panel and Board agreed to switch the Fund's holding in passive emerging markets to an active investment manager that had been selected by the ACCESS portfolio with a very strong responsible investment and stewardship track record.

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. 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 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 such as their capacity and expertise to consider and carry out RI and stewardship activities, their 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

Investment manager appointments

The Pension Fund recognises that it is some time since it appointed many of its investment managers and in the intervening time the requirements and expectations for RI and stewardship of investments have increased significantly. The Pension Fund has commissioned investment advice for 2024 to review its options for active equity and multi-asset credit investment in the ACCESS pool. The review will include a combination of the assessment of investment managers' capacity and ability to deliver in alignment with the Pension Fund's investment objectives and Responsible Investment and Stewardship Policy.

In addition, the ACCESS pool is in the process of implementing its non-listed pooled investments programme, which will form the basis of future non-listed options for the Pension Fund. ACCESS's selection criteria includes ensuring that prospective investment managers have made an appropriate commitment to responsible investment standards (such as being signatories to the PRI), have the capacity and capability to work to ACCESS's stewardship standards and can allocate a percentage of new investments to sustainable and impact investments.

This shows that investment managers' commitment to and effective management of responsible investment will have a tangible impact on the investment managers chosen to manage the Pension Fund's investments.

Portfolio construction

The Pension Fund Panel and Board has taken a number of decisions to improve the responsible investment characteristics of its investment portfolios in particular to increase the amount of investments with lower carbon emissions, including:

- working with active equity and fixed income investment managers to agree targets to reduce the carbon emissions of portfolios relative to their respective targets;
- agreeing with the Pension Fund's passive investment manager to amend index-tracking portfolios to either 'tilt' towards lower carbon emissions, or track lower carbon indices, and most recently;
- deciding to amend its investment strategies to target over 30% of the Fund's alternative investments to sustainable and impact investments by 2025/26.

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	Asset-backed securities – TwentyFour Asset Management
Investment	Leaseplan
RI theme	Climate action (SDG13)
What was the aim of the engagement	TwentyFour requested CO2 data for an auto deal brought to the market by Leaseplan. The sponsor provided no data and generally unsatisfactory responses. TwentyFour then requested a meeting to discuss the matter further.
What was the result of the engagement – what's changed	During the meeting with management, they explained their reluctance to provide this data as it may not be 100% reliable. TwentyFour told them that this is a market wide issue and that any data is better than none and this greatly helps their ESG assessment. Management took their views onboard and following this discussion they updated their ESG questionnaire to include CO2 data.
Was the engagement successful – if not what is the next point of escalation	Overall, this was a successful engagement, the sponsor understood TwentyFour's view and provided the data requested and therefore they were happy to invest in this deal.

Portfolio	Private Debt – JP Morgan Alternative Asset Management
Investment	Global manufacture of kitchen and bathroom products (held by Pennant Park)
RI theme	Reduced inequality (SDG10) Climate action (SDG13)
What was the aim of the engagement	When Pennant Park acquired the global manufacturer of kitchen and bathroom products for disabled individuals, Pennant Park collaborated with the management team to help set up an ESG task force to promote a number of initiatives outlined below.
What was the result of the engagement – what's changed	The company has made the following changes: Water saving initiatives – the company developed a guide that provides tips on conserving water and energy will be shared with clients along with a shower timer to help minimize shower time Product packaging – the company is aiming to remove single-use plastic from all packaging and replace it with recyclable alternatives. Currently, this has been implemented on shower screens and waste pumps, saving 1,752 kilograms of polythene from January-April 2022. Business environmental impact – the company has collected energy usage and emissions data and is compliant with the UK government's Energy Saving Opportunity Scheme. Recycling has been accelerated across the business with 100% of polythene and cardboard in warehouses collected and recycled Volunteering program –launched at the end of 2022 and provides additional leave for staff to participate in volunteering activities within the local communities across the UK. Charity partnerships – two partnerships formed with Warrington Disability Partnership (supporting people with disabilities) and DEPHER (provides emergency plumbing and heating repairs to elderly and disabled people) Fundraising – the company has a calendar of fundraising events for national and local charities along with national awareness days as well as events planned exclusively by the company to raise money for Dementia UK Creating transparency – the company will make ESG information accessible to all stakeholders and is in the process of updated its website to include all ESG activity and measures. The company is also investing in software platforms to house data and create presentable information for stakeholders
Was the engagement successful – if not what is the next point of escalation	The initial ESG programs have been successful, and the company is in the process of completing a sustainability assessment with Ecovadis to inform areas of improvement and subsequent future initiatives.

Portfolio	Passive Globa Equities – UBS (via the ACCESS pool)
Investment	Equinior
RI theme	Climate action (SDG13)
What was the aim of the engagement	Encourage board refreshment and remuneration issues: In 2023, alongside other investors, UBS engaged with the company on their accounting standards. Their 2022 ARA would be the first integrated report, combining sustainability report with financials. UBS were looking for enhancements and details on commodity prices, carbon taxes, 1.5C sensitivity, impairments, tax, and AROs. UBS had a call with the ownership department and highlighted key expectations on climate transition: Climate risk must be integrated into company's strategies, science-based targets and measures that are in line with Paris Agreement (Scope 1-3), must report emissions (scope – 1-3), and expectation for them to execute their energy transition plan. Alongside UBS's Climate Action 100+ partners, they wrote a letter to the Norwegian government requesting to have a meeting with them to discuss how they can work with them to best align Equinor to the Paris Climate Agreement.
What was the result of the engagement – what's changed	The company presented its first energy transition plan for shareholder vote and will work towards raising their decarbonisation targets. The company has strengthened its targets to reduce operated scope 1 and 2 emissions. The company has set expectations that they expect Equnior's targets to be science-based, but made it clear this does not mean SBTi validated.
Was the engagement successful – if not what is the next point of escalation	UBS are continuing to engage with the company, encouraging them to raise their decarbonization targets. They also continue to explore the link between the government's climate policy and its majority investment in the company. UBS will monitor progress and continue to press for stronger action to tackle value chain emissions. UBS would like to see stronger disclosure on the short and medium-term activities to reduce scope 3 emissions. Ideally, metrics and targets on these activities can be set by the end of 2023. They would also want the company to commit to responsible divestment principles associated with any potential divestments, and to have a forward looking capex delineated by renewables, CCS, hydrogen, fossil fuel (ideally up to 2030, but at least a 3 to 5 year outlook). In the latest proxy vote, UBS voted against certain agenda points, as they believe they were overly prescriptive and not well formulated. Some of the points are listed here: their exploration and drilling policy, providing financial and technical assistance to Ukraine's energy infrastructure, policy around ending activities in Barents Sea, adjust up investment in renewables/ low carbon solution to 50% by 2025, including Global Warming in company's further strategy, and phase out of all production and sale of Oil and Gas policy.

Portfolio	Global equities – Baillie Gifford (via the ACCESS pool)
Investment	Amazon
RI theme	Climate action (SDG13)
What was the aim of the engagement	Baillie Gifford spoke with the company's head of ESG engagement to discuss progress and developments in Amazon's climate strategy. With one of the largest value chains in the world, Amazon's sustainability initiatives mitigate risk of supply chain disruptions, support its brand and reputation, contribute to operational efficiencies and long-term cost savings.
What was the result of the engagement – what's changed	Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets and establishing The Climate Pledge to accelerate climate action by the world's top companies. However, recent developments indicate challenges to delivering on its climate strategy. Baillie Gifford discussed the company's decision to step back from its SBTi commitment. Amazon referred to methodological differences with the SBTi regarding business complexity and differentiated pathways, both organisations' approach to offsets and Amazon's ongoing development as a high growth business. The company are looking at alternative organisations to validate its emissions targets and Ballie Gifford hope a new supply chain standards report, due in 2024, provides more insight into how the company is progressing climate action and sustainability across its value chain. Finally, Baillie Gifford repeated their encouragement for Amazon to broaden the scope of its targets to include upstream emissions from first-party and third-party sellers on its platform. Given the company's systemic importance, they believe this would be an important catalyst for decarbonisation across the value chain.
Was the engagement successful – if not what is the next point of escalation	Baillie Gifford remain supportive of Amazon's long-term aspiration to be net zero by 2040 and understand the pathway to this goal will be challenging. They asked for greater transparency in how Amazon plans to achieve its objectives and outlined Baillie Gifford's and Hampshire's belief that external validation of its targets is important to ensure accountability beyond its immediate emissions boundary. Baillie Gifford will continue to monitor the company's progress and engage when necessary.

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 meets 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.

An increasing proportion of the Pension Fund's assets are transferring to the ACCESS pool and as such expects the pool and its Operator (Waystone) to play an important role in the delivery of information to enable Hampshire to demonstrate good stewardship. As a member of the ACCESS pool, Hampshire has a dual role both monitoring and scrutinising the output of stewardship information and exercising a view in the design of how stewardship activities are delivered in the pool.

As identified in the previous section the Pension Fund is commissioning advice to review its options for investment in the ACCESS pool that will include scrutiny of investment managers capabilities as responsible investors.

The Pension Fund does not employ a permanent investment consultant, but commissions work from the appropriate suppliers as and when work is required. It has done this on a number of occasions specifically for RI related advice, which it feels is the most efficient and effective model in ensuring that it receives advice from the best source for the given question.

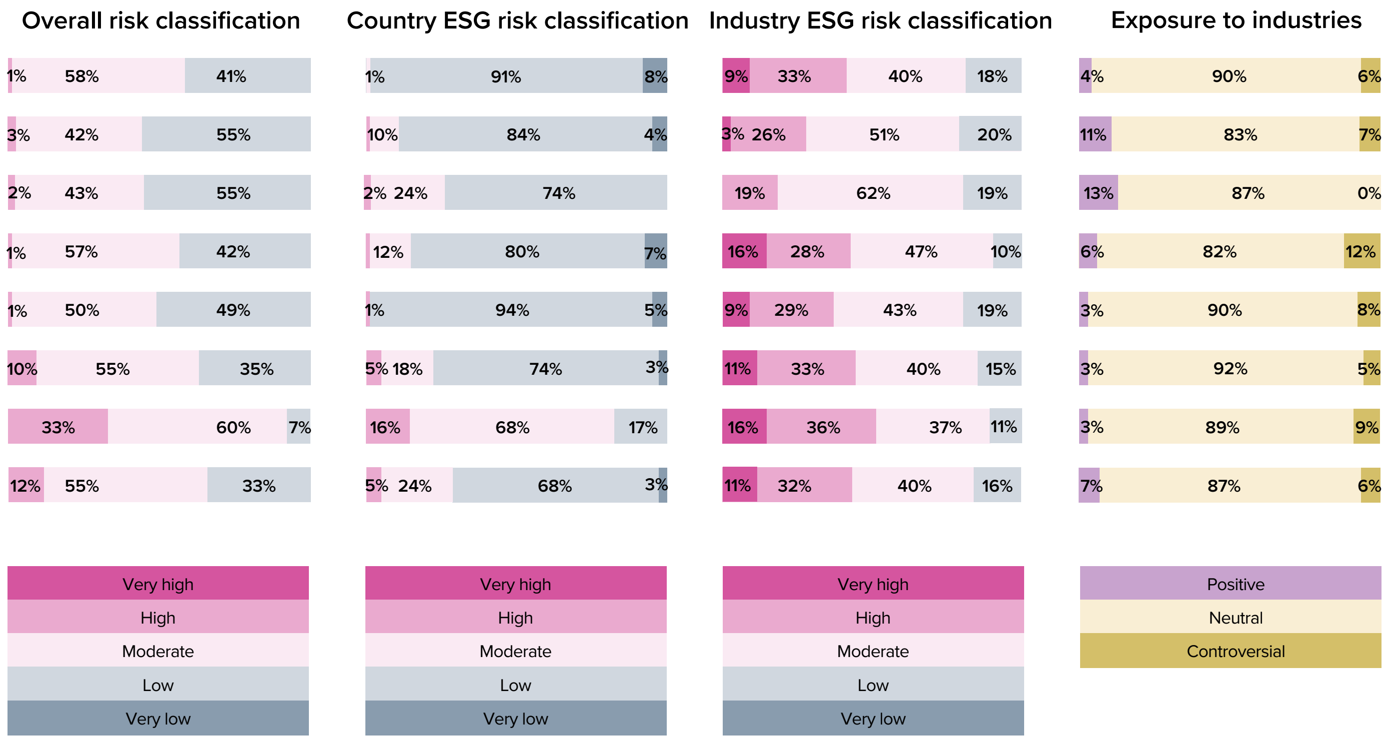
Outcome

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.

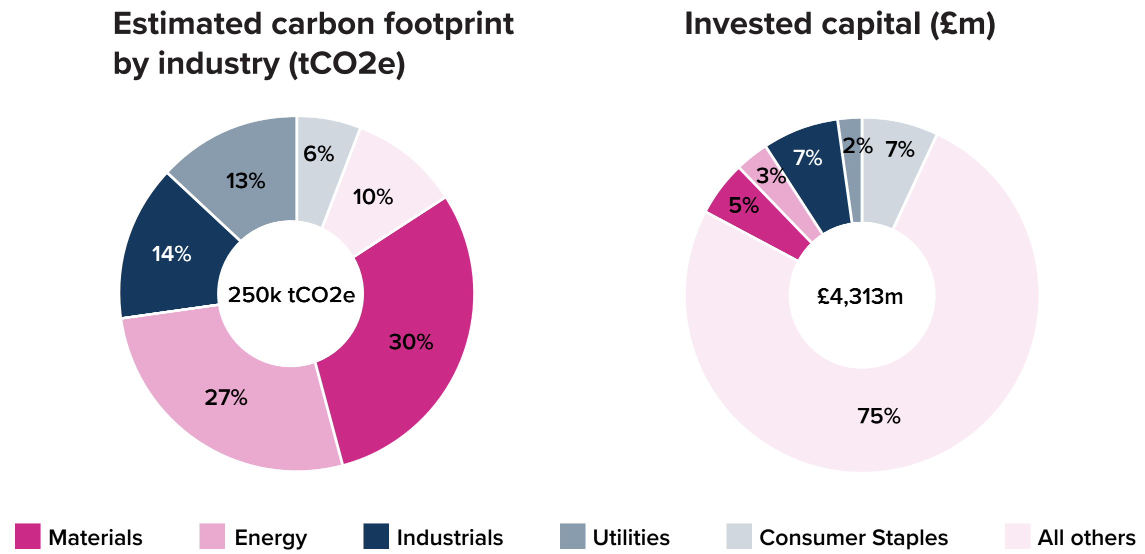
In addition, the Pension Fund has recommissioned specific RI consultancy advice from Apex on the ESG risks and exposures in each of the Fund's portfolios.

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. The Pension Fund has not only received this advice, but critically considered the advice that it has been presented with. This resulted in the Pension Fund's officers and Panel and Board having interactive discussions with the consultant to ensure that its requirements had been met and that it fully understood the advice it received.

Example 1 – portfolio ESG risk assessment



Example 2 – portfolio carbon footprint assessment



Top 10 carbon emitting stocks

Company	HCC estimated carbon emissions	Emissions target
Holcim Limited	14,984	Net-Zero 2050
Occidental Petroleum	14,479	Net-Zero
Ryanair Hldgs	10,708	Net-Zero 2050
Suncor Energy	10,455	Net-Zero 2050
OVINTIV	9,534	Emissions intensity target 2030
CRH	6,758	Net-Zero 2050
Martin Marietta Mats	5,492	Emissions intensity target 2030
Power Assets Hldgs	5,382	Net-Zero S2 2050
Reliance Inds	4,817	Net-Zero 2035
FEDEX	4,565	Carbon Neutral 2040

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 they 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.

The Hampshire Pension Fund and the ACCESS pool recognise that ACCESS can deliver more to enable its member funds to meet their stewardship responsibilities and as a result delivering greater stewardship reporting is one of the key elements of ACCESS's 2024/25 Business Plan. As an early adopter of the 2020 Stewardship Code, Hampshire has been a vocal advocate of ACCESS becoming a signatory to the Code and Hampshire was very pleased that part of ACCESS Business Plan includes commissioning work to support ACCESS in working towards making an application to join the Code.

Engagement

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

Activity

Investment management is delegated to external investment managers who are instructed 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, as set out in the Fund's RI Policy. RI risks are identified and monitored through the engagement programme with the managers. This includes the Fund's commitment to a net zero green-house gas emissions by 2050 at the latest. The Pension Fund:

- Includes responsible investment and stewardship on the agenda for every meeting with its investment managers and in every briefing provided to the Pension Fund Panel and Board on the performance of investment managers
- Participates in bi-monthly investor meetings with ACCESS partner funds where ESG matters are discussed with managers
- Participates in twice yearly Pool Operator's investor days where several managers will be invited to present to discuss their strategy and portfolio
- Has access to the Local Authority Pension Fund Forum through the ACCESS pool and has attended quarterly meetings as an observer
- Expect managers to engagement with companies in relation to business sustainability, climate risks and RI priorities identified in the RI policy
- Assesses managers' portfolios in relation to climate risk, other ESG factors and against the Fund's agreed TCFD climate risk metrics

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	Multi-asset credit – Barings
Investment	Chemicals producer
RI theme	Board governance
What was the aim of the engagement	Barings holds an existing investment in a global vertically integrated commodity chemicals producer. The company has a history of making dividends to fund other investment projects and business ventures within the wider group. It became evident to Barings via news articles that the principal shareholder of the company had registered his interest in a bid for a Premier League Football club with a high anticipated valuation. During a virtual small group meeting with the CFO and wider senior management team, Barings requested further disclosure on the likelihood of the business increasing the size of their future dividends to fund any potential bid. Barings also expressed that such a transaction could be viewed negatively by the market and lead to downward pressure on the secondary pricing of debt instruments in the existing capital structure.
What was the result of the engagement – what's changed	The company indicated that there will be no future dividends from the group to fund the potential football club bid, which Barings viewed positively and decided to take no further actions in relation to changing the existing Barings ESG rating or fund positioning.
Was the engagement successful – if not what is the next point of escalation	None at this stage. As part of Barings' ESG approach, issuer scoring is reviewed periodically.

Portfolio	Private Equity – abrdn
Investment	Too Good To Go (TGTG) – co-investment alongside lead sponsor Blisce
RI theme	Responsible consumption (SDG12), Zero hunger (SDG2), Gender equality (SDG5)
What was the aim of the engagement	abrdn PE collaborates with Blisce, the GP sponsor for TGTG to build a scalable, profitable, and sustainable multi-country business, prioritising community engagement to reduce food waste. They focused their discussions with Blisce on their impact and sustainability strategies at TGTG's board level, emphasising plans to enhance the business' footprint and improve positive impact reporting. abrdn support Blisce in guiding TGTG's founders on implementing the highest ESG standards and providing strategic guidance on governance practices, DEI, environmental policies and stakeholder capitalism. They also attend events organised by Blisce, including a recent seminar on climate change and their portfolio. In their dialogue with TGTG, abrdn encourage them to elaborate on diversity targets for their teams and management.
What was the result of the engagement – what's changed	TGTG has saved c.200 million meals since its inception in 2016, avoiding nearly 500,000 tonnes of CO2e emissions, a clear contributor to the UN goal of reducing food waste in half by 2030. Through their date labelling campaign, education projects and legislative means, TGTG continues to influence tangible change towards responsible consumption and production. TGTG has been prioritising and providing updates on its diversity targets in recent meetings.
Was the engagement successful – if not what is the next point of escalation	abrdn will continue to engage with TGTG alongside Blisce to monitor and support progress towards their goal of becoming the world-leading comprehensive solution for all aspects of food waste, and ultimately contributing to the UN SDG of a 50% reduction in food waste by 2030.

Portfolio	Global equities – Acadian (via ACCESS pool)
Investment	Koninklijke Ahold Delhaize NV (Dutch Consumer Staples company)
RI theme	Climate Action (SDG 13)
What was the aim of the engagement	The company's carbon emissions and WACI are above its peers. The company has committed to SBTi, and this engagement's purpose is to track progress made by the company on those targets.
What was the result of the engagement – what's changed	Acadian met with the director of ESG strategy for the company. The company has a big footprint in the US and Europe. The company targets a 50% reduction in scope 1 and 2 based on 2018 baseline by 2030, and net zero by 2040. It has achieved 32% reduction so far. The majority of the 32% reduction in emissions came from renewables or having green Purchasing Power Agreements, for example in the Netherlands they switched to 100% wind energy two years ago and in the US, they committed to 100% renewables by 2024. The company is switching to renewables while remodelling their stores and to an electric fleet of vehicles as part of their transition plan. In terms of remodelling their stores, the company has certain requirements that need to be implemented when a store is remodelled such as LED lighting, energy efficiency measures to reduce the energy consumption and greener refrigeration systems. The company set their scope 3 target in November 2022 with a 2020 baseline. They target a 37% reduction target by 2030, and net zero by 2050. 95% of total emissions come from scope 3. In total they report on 10 categories out of 15 and follow GHG protocol to calculate emissions. The company identified 3 categories to tackle scope 3 emissions namely supplier engagement, low carbon products and customer engagement. The company works with suppliers to reduce emissions in the supply chain, helping them to set and commit to SBTi and report their emissions. When asked about the company's current visibility of supply chain, the company responded that they work with suppliers until the last stage of products. For certain critical commodities such as cocoa, palm oil, beef etc. they ask for sustainability linked certificates. The next steps for the company include building the transition plans, finalising, approving, and embedding them into the brands they operate. They are working towards scope 3 targets by updating their standards of engagement.
Was the engagement successful – if not what is the next point of escalation	Yes – The company has set targets approved by SBTi for scope 1 and 2 and recently set a target for scope 3, all aligned to 1.5-degree scenario. The company has managed to achieve a 32% reduction in scope 1 and 2 relative to baseline. The company appears to be on track to meeting its decarbonisation targets, no further follow-up required.

Portfolio	Global equities – Dodge & Cox (via ACCESS Pool)
Investment	Occidental Petroleum (OXY)
RI theme	Climate action (SDG13)
What was the aim of the engagement	Dodge & Cox spoke with the company discussing capital allocation and its continued investments in its energy transition goals.
What was the result of the engagement – what's changed	Dodge & Cox's Global Industry Analyst met with OXY's CEO and CFO in their offices and they have continued having conversations with Occidental on its capital allocation framework. They spoke about OXY's debt reduction efforts over the last year as well as mergers and acquisitions (M&A) trends in the industry. Additionally, Dodge & Cox continued their discussions on OXY's climate strategy. They spoke about carbon credits available in the industry and OXY's current strategy to determine how the direct air capture (DAC) technology that the company is investing in could be beneficial to its business over the long-term. Dodge & Cox believe that the company's 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 management and believe they adequately heard their voice.

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

Activity

The Fund participates in collaborative engagement in a number of ways, including:

1. Appointed investment managers

The Pension Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out on the Fund's behalf. In addition, they can pool their assets across all clients when engaging with underlying companies (e.g. this is very relevant for the Fund's index tracking equity manager UBS in terms of influence). They also collaborate with other organisations through the likes of Climate Action 100+ (CA100+).

2. Membership of specific RI groups

The Hampshire Pension Fund is a member/supporter of the following organisations which provide a platform for investors to advocate for responsible investment and good stewardship:

- Principles for Responsible Investment
- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI), and;
- Just Transition

In addition, in 2023 following its decision to amend its investment strategy to target over 30% of the Fund's alternative investments to sustainable and impact investments by 2025/26, the Pension Fund was accepted as a member of Pensions for Purpose.

3. The ACCESS pool

Hampshire is one of the eleven participating funds in the ACCESS Pool. All partner funds are committed to working collaboratively including in the areas of stewardship and manager engagement. The partner funds have agreed voting guidelines which all investment managers under pool governance are expected to take into consideration when voting on behalf of the funds on a comply and explain basis.

The funds are also collaborating on RI activities through the adoption of ACCESS specific RI guidelines. Following ACCESS's appointment of PIRC as its RI consultant ACCESS's RI guidelines are being reworked to better reflect the needs of the member funds as responsible investors. Hampshire is an active representative of the ACCESS working group delivering this work and has been a leading advocate of ACCESS's work for the pool to join the UK Stewardship Code.

4. Membership of the Local Authority Pension Fund Forum (LAPFF)

In 2023 with support from Hampshire, the ACCESS pool agreed to become a member of the Local Authority Pension Fund Forum (LAPFF). Through the LAPFF Hampshire's holdings in the ACCESS Pool are able to leverage the voice of over 80 pension funds when engaging. LAPFF engages on the basis of sizeable holdings within its membership in ESG themes identified in its business meetings.

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	Passive Global Equities – UBS (via the ACCESS pool)
Investment	Meituan
RI theme	Gender equality (SDG5), Decent work and economic growth (SDG10)
What was the aim of the engagement	Labour rights, data privacy and cyber security and diversity issues: Labor rights concerns, lack of diversity at Board level and data privacy and cybersecurity risks identified. In Sept 2022, UBS participated in an engagement with the company, organized by ACGA, to discuss about improvements made on labour management and other ESG issues. The company confirmed the introduction of new pilot programs and benefits such as rider panels, complaint hotlines, safety software and hardware, mandatory breaks after 4 hours etc. that apply to all riders. UBS encouraged the company to disclose more on its rider workforce, such as turnover rate, accident rate distribution by age, gender etc. Improvements on data privacy (opt in, opt out, policy) but lacks in cybersecurity disclosures. UBS encouraged the company to disclose more.
What was the result of the engagement – what's changed	Company was receptive to feedback and initial improvements seen. The company stated that it was searching for an independent female board director after UBS encouraged the company to add diversity to its Board. UBS have encouraged the company to consider linking executive remuneration to accident rates and ESG metrics in the future and they are open to consider that. Improvements on disclosures and making algorithms more rider-friendly. The company piloted new mechanisms to improve communication and offered additional benefits to all riders. The company appointed its first independent female board director at its 2023 AGM. In October 2023, UBS had its first 1:1 ESG engagement with the company outside of the collaborative engagement through the ACGA. Company was very receptive to UBS's input and will share their input with the board. They acknowledged the importance of higher diversity and will work towards this. UBS also gained more clarity on their views on capital allocation, remuneration, health and safety and impacts of physical climate risk.
Was the engagement successful – if not what is the next point of escalation	UBS will continue following up and engaging with the company in 2024 to reiterate the importance of diversity (at board and senior executive level). Other areas to focus in on would be their capital allocation structure, remuneration/ stock option plan, health and safety measures, and disclosure on pay for management. UBS will check in on progress in future meetings in 2024.

Portfolio	Active Global Equities – Baillie Gifford (via the ACCESS pool)
Investment	CRH
RI theme	Climate action (SDG13)
What was the aim of the engagement	CRH is an Irish domiciled building materials business with a large and growing exposure to North America. It is one of the largest contributors to the portfolio's carbon footprint. Baillie Gifford aimed to encourage more detailed disclosure regarding the consideration of climate-related issues by the board and the company auditors. Specifically, they sought more detail on assumptions, including future costs and plausible policy interventions, accounting judgements, and scenario analyses for possible pathways.
What was the result of the engagement – what's changed	Baillie Gifford took part in collaborative engagement coordinated through Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. They spoke with the board chair, Richie Boucher, and the chair of the audit committee, Shaun Kelly. CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry that Baillie Gifford believe is potentially advantageous but has cost implications. The company commits to being net zero by 2050 and recently outlined new goals, which target an absolute reduction in scope 1 and 2 emissions of 30 per cent by 2030 versus 2021 levels. These new targets have been validated by the Science Based Targets initiative to be in line with a 1.5-degree pathway. The focus of Baillie Gifford's discussion was to encourage more specificity in the financial accounts and to discuss the potential impacts on CRH's business of meeting these long-term objectives. Baillie Gifford also asked how the board examines climate risks and how it determines materiality in terms of the company's accounts. Baillie Gifford explained that given the carbon-intensive nature of CRH's business, alongside its potential exposure to physical change, it would be helpful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. They stressed that more comprehensive disclosure in its annual accounts and auditors' report are important for shareholders to make informed investment decisions.
Was the engagement successful – if not what is the next point of escalation	The CRH 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in strategy discussions and against existing financial assessments. CRH has also now quantified the incremental spend required to meet its 2030 decarbonisation goals. Baillie Gifford consider CRH a leader in terms of its engagement with decarbonisation and the recycling of building materials. They look forward to further discussions on quantitative transparency in 2023 – particularly concerning scenarios for different plausible climate outcomes.

The LAPFF Executive Committee gathers input from the members and the primary service provider and advises on what engagement collaborations to pursue and prioritise. Where a significant number of LAPFF members hold a company or where LAPFF funds hold a large percentage of the company or a priority issue has been identified, LAPFF will seek to engage with the relevant company. In advance of LAPFF engagement meetings, specific engagement objectives are set and then outcomes measured against them once the meeting has concluded. To the extent possible, company actions that correspond to LAPFF engagement objectives are assessed and recorded. Through LAPFF engagements, companies are assessed and monitored for progress against engagement objectives. On behalf of its member including the ACCESS pool the following LAPFF engagements in 2023 included stocks held by Hampshire.

Portfolio	Active Global Equities – Baillie Gifford (via the ACCESS pool)
Investment	Adidas
RI theme	Peace, justice and strong institutions (SDG16)
What was the aim of the engagement	Adidas has maintained operations in Myanmar. It was also subject to a letter from the US House Select Committee on the Chinese Communist Party regarding supply chain links to cotton produced with Uyghur forced labour. LAPFF was keen to understand why Adidas has decided to maintain operations in these countries.
What was the result of the engagement – what's changed	LAPFF met with Adidas to discuss these supply chain issues in the context of the company's approach to human rights risk management in its global supply chains. LAPFF asked questions about the development of the company's human rights policy, its decision to remain in Myanmar, and on its due diligence regarding Uyghur forced labour in its supply chains, which the company provided comprehensive answers to.
Was the engagement successful – if not what is the next point of escalation	It is unclear whether Adidas' response to the House Select Committee is something that will be made public. LAPFF will continue to monitor how the company chooses to publicise its supply chain practices, as well as continuing to monitor labour rights issues in both Myanmar and Xinjiang.

Portfolio	Global equities – Dodge & Cox (via the ACCESS pool)
Investment	Barclays
RI theme	Climate action (SDG13)
What was the aim of the engagement	The aim of meeting with Barclays was two-fold. The first objective was to ensure continued progress on climate related disclosure and investment, including challenging the company on fossil fuel investments. The second objective was to seek to improve governance, noting CEO appointments have been a long-term issue for the company.
What was the result of the engagement – what's changed	LAPFF was offered a very late meeting with the Chair, where it expressed its concerns primarily over governance. The discussion centred on why the Financial Conduct Authority (FCA) investigation reached a different conclusion to that of the Board a year earlier, and what that might mean for the analysis and judgement of the Board. Recent press allegations had further heightened the LAPFF concerns, with suggestions that the Board could have known more.
Was the engagement successful – if not what is the next point of escalation	LAPFF was considering issuing a voting alert recommending abstaining on the election of the Chair. However, in light of further discussions with the Chair, the alert was withdrawn. LAPFF expects to follow up with the Chair and will further discuss governance, seeking reassurances and identifying any possible actions. LAPFF will also follow up with Barclays on climate action and disclosure, in particular the rate of wind down of fossil fuel lending.

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

Activity

Responsibility for day-to-day interaction with companies is delegated to the Pension Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. The investment managers report on their stewardship activities to the Pension Fund and key highlights are reported to the RI sub-committee. A specific purpose of the RI sub-committee is to provide a forum for members to scrutinise and set expectations for engagement and escalation that may be required. Examples of escalation by asset managers and LAPFF are provided below.

It is the Pension Fund's belief that the most effective way to effect change is by engagement and constructive dialogue with the companies in which it invests. However, the Fund recognises that this may not always lead to the desired outcome and escalation may be necessary which the external investment managers are expected to incorporate into their stewardship process. A lack of progress with a company through engagement can be addressed by engaging collaboratively as part of a group of investors, registering concern by writing public letters with additional signatories and attending shareholder meetings and filing/co-filing shareholder resolutions. While this is not an exhaustive list of escalation steps, these are all tools that are available to Pension Fund's investment managers the Fund expects its managers to make use of the full range of escalation steps when they carry out their stewardship activities.

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	Passive Global Equities – UBS (via the ACCESS pool)
Investment	Enel SPA
RI theme	Board governance
What was the aim of the engagement	Governance and board composition: Enel is the largest Italian utilities company, and it is partly controlled by the Italian government, who owns a 23.6% stake through the Ministry of Economy and Finance. Due to the Italian system of Board election, whereby traditionally the majority shareholder presents a slate of candidates for the Board, the Ministry has always presented a majority list. Since Francesco Starace became CEO in 2014, Enel has become a leader in the transition to a low carbon economy, and is now one of the few companies in the industry to have a commitment to reach net zero by 2040. In the run-up to the 2023 AGM, it emerged that the newly elected Italian government was planning to replace the entire Board of Enel, including Starace, with a list of candidates rumoured to be politically affiliated with the new government. After the publication of the government list, another minority investor, presented a challenging slate of candidates, arguing that the experience and quality of the government candidates were not sufficient to lead a company of Enel's calibre. UBS engaged with the investor to better understand their argument, and they shared their concerns about the relative lack of experience, and the perceived political affiliation of some members of the government slate.
What was the result of the engagement – what's changed	UBS supported the other investor's slate of candidates for the board and co-signed an investor letter to the government, asking for them to recognise the significant achievements of Enel's leadership, and to possibly reconsider the list.
Was the engagement successful – if not what is the next point of escalation	Unfortunately, this did not lead to any tangible outcome and the Board was replaced. UBS will continue monitoring board developments in the future. They successively engaged with the candidate CEO of the government list, and a representative of the Ministry of Finance, who explained to them the selection process for the government slate. While UBS received some reassurances regarding the future direction of Enel in terms of decarbonisation, their main feedback was around the opacity of the selection process, and the loss of credibility of the Italian government, who completely replaced a world-class Board and CEO for no apparent reason, and without consulting the company.

Portfolio	Passive Global Equities – UBS (via the ACCESS pool)
Investment	Ubisoft
RI theme	Board governance
What was the aim of the engagement	UBS believe UBISOFT had weak governance controls. This is due to the strong family control, lack of relevant experience of independent members (including Lead Independent Director (LID)), and overrepresentation of family on Board. There were also legacy scandals around bullying and sexual harassment of staff. Private investment between family and Tencent emerged, entrenching management and reducing takeover potential (September 2022). UBS began engagement in March 2021, and enhanced engagement in October 2022 and since then have had 8 meetings with their LID, CEO, and CFO.
What was the result of the engagement – what's changed	Since initial engagement in March 2021, in December 2021, Ubisoft made improvements to HR and Exco. After the announcement of the Tencent deal in September 2022, UBS sent a letter to the Board detailing their concerns and expectations on governance. Initiated collective engagement facilitated by UK Investor Forum (IF) starting with a letter on board composition and replacement of the LID. In July 2023, the company announced nomination of two new Board Directors and LID succession. They have also announced enhanced capital market communications, including around the Tencent deal.
Was the engagement successful – if not what is the next point of escalation	On the 27 September 2023, UBS decided not to support the resolution to approve the report on related party transactions pertaining to the deal between Tencent and the Guillemot brothers. The resolution was opposed by 43% of shareholders. UBS believe there is still room for improvement in terms of Board composition, including with regard to family representation and ambition around financial communications. The company remains somewhat resistant in communicating clear financial targets, and sos UBS will continue to encourage the company to improve transparency on this key aspect.

Portfolio	Passive Global Equities – UBS (via the ACCESS pool)
Investment	Shell
RI theme	Climate action (SDG13)
What was the aim of the engagement	Further to Shell's rowing back from its already unsatisfactory Energy Transition Plan, the company is now a point of special focus, given both its size and importance as an investment, as well as the scale of its emissions. LAPFF continues to aim to have the company understand its role in the energy transition and take action accordingly.
What was the result of the engagement – what's changed	LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough visibility on some putative sources of future revenue and growth to attach numbers to, does accord with LAPFF's critique since 2020.
Was the engagement successful – if not what is the next point of escalation	The LAPFF will dedicate further effort will be put into understanding the numbers and the business model as well as direct engagement.

Portfolio	Global equities – Baillie Gifford (via the ACCESS pool)
Investment	Cloudflare
RI theme	Board governance
What was the aim of the engagement	To escalate concerns regarding the compensation committee's decision to reprice options and amend performance targets for outstanding awards, and to explain our decision to oppose the executive pay resolution.
What was the result of the engagement – what's changed	Baillie Gifford outlined their belief that making changes 1 year into a 10-year plan when short-term conditions had affected the options' value was premature and indicates a lack of resolve by the board. Specifically, that this decision does not align with investors' experience as long-term shareholders and that it is inconsistent with the virtues Cloudflare espouses for incentive compensation in its proxy statement. Whilst Baillie Gifford are not indifferent to the retention concerns put forward by the board, they explained that changing vesting conditions for outstanding awards and without shareholder approval is contrary to the principles of pay for performance. Furthermore, it was doubly disappointing given lengthy conversations they had in the previous year in relation to executive remuneration when they outlined our expectations.
Was the engagement successful – if not what is the next point of escalation	The position at the AGM was not successful with a 26% oppose votes (including Baillie Gifford's votes). Baillie Gifford have followed-up with a letter to the board reiterating they expectations for executive remuneration and commitment to be constructive shareholders.

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 includes 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).](https://www.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 expects its fixed income managers to carry out extensive pre-investment analysis of issuers around their structure and covenants and employ an engagement approach when seeking amendments to terms and conditions in indentures or contracts and when reviewing prospectuses and transaction documents. Investment will depend on a favourable transactional structure being agreed.

Outcome

A summary of voting activity is reported to each meeting the Pension Fund's RI sub-committee in order to highlight the types of votes being cast by investment managers and their votes on the Pension Fund's behalf of particularly sensitive areas.

Portfolio	Global equities – Baillie Gifford
Investment	Netflix
Date	1 June 2023
Resolution	Shareholder resolution - social
For/against	For
Outcome (pass/fail - %)	Fail Vote For – 35.12% Vote Against – 61.53%
Voting rationale and outcome commentary	Baillie Gifford supported a shareholder resolution requesting the company adopt and disclose a freedom of association and collective bargaining policy. Labour issues are identified as a material risk to the company's financial statements and they believe that shareholders would benefit from greater understanding of Netflix's policy and approach to this matter. Its lack of policy lags other large technology companies and may open it up to increased risk, particularly in light of past and ongoing controversies.
Company response	Baillie Gifford informed Netflix about their voting decision and rationale, and received an acknowledgement.
Next steps (if not satisfied)	Baillie Gifford have a call scheduled with Netflix to follow up on this topic as part of a broader discussion on employees and culture.

Portfolio	Global equities – Baillie Gifford
Investment	PDD
Date	8 February 2023
Resolution	Management – Elect directors
For/against	Against
Outcome (pass/fail - %)	Pass Vote For – 85.32% Vote Against – 14.67%
Voting rationale and outcome commentary	Baillie opposed the election of the director who is the chair of the nomination committee because the board remains entirely male. They have engaged previously with the company on this issue and explained that we expect the gender diversity of the board to improve by this annual general meeting. Baillie Gifford and Hampshire believe that diversity would bring different perspectives to the board which is ultimately important for the long-term prospects of the company.
Company response	In August 2023, PDD added a new female independent director to the board.
Next steps (if not satisfied)	Baillie Gifford and Hampshire are pleased to see progress by the company on the topic of board diversity, and are satisfied with the company's response at this point.

Portfolio	Global equities – Baillie Gifford
Investment	Amazon
Date	24 May 2023
Resolution	Shareholder – Social
For/against	For
Outcome (pass/ fail - %)	Fail Votes For – 31.83% Votes Against – 66.79%
Voting rationale and outcome commentary	Baillie Gifford supported a shareholder resolution requesting a report on plastic use. Plastic pollution poses financial, operational and reputational risks to the company. While Baillie Gifford continue to believe that Amazon are making progress they think more could be done particularly with the regards to how they influence their manufacturers to reduce their usage. Baillie Gifford also believe that the company lags peers who disclose total plastic use and reduction targets. Better addressing this issue will help position the company for the long term future growth.
Company response	Following the 2023 AGM Baillie Gifford explained their voting decision to the company who then offered a call to discuss its new sustainability report. During this call, the company shared the progress Amazon has made with regards to single-use plastic across its global operations network when shipping orders to customers. Baillie Gifford were reassured by the notable decrease in plastics usage since 2015. Overall, they believe the company has responded constructively to the shareholder proposal and its most recent reporting demonstrates a firm commitment to continue its efforts.
Next steps (if not satisfied)	Baillie Gifford will continue to engage on this topic but are reassured by the discussions they have had so far.

Portfolio	Global equities – Dodge & Cox
Investment	Cisco Systems Inc
Date	6 December 2023
Resolution	Shareholder – Report on tax transparency set forth in the global reporting initiatives tax standard.
For/against	Against
Outcome (pass/ fail - %)	Fail For – 21% Against – 61%
Voting rationale and outcome commentary	Dodge and Cox generally support managements decisions regarding a company's business operations. Dodge and Cox will review proposals regarding social and environmental issues on a case by case basis and will consider supporting proposals that address material issues that it believes will protect and/or enhance the long term value of the company. For example shareholder proposals requesting information or data that enables us to better assess material financial risks to the company around social and environmental issues such as human capital and energy transition.
Company response	Cisco currently provides information on its tax contributions in its Form 10-K for U.S. federal, state, and international income taxes.
Next steps (if not satisfied)	N/A

In addition to exercising rights as a shareholder for listed equity investments the following examples from the Pension Fund's non-equity investment managers show how they have exercised the Fund's rights for other types of investments.

Portfolio	Private equity – abrdn
Investment	Latour Capital III
What was the aim of the engagement	In its role on Latour's Advisory Board abrdn reviewed the investment by Latour IV into existing Latour III portfolio company Funécap. The Advisory Board's role was to ensure the transaction was in the interests of Latour III investors and being completed at a fair price, with appropriate rationale for the Latour IV investment. And in addition to ensure that there was no ongoing conflict in terms of timing or capital requirements for the investments from Funds III and IV.
What was the result of the engagement – what's changed	Latour explained the rationale for the transaction very clearly and abrdn requested Latour to follow best practice in terms of transparency and process. Comfort on pricing was achieved as the transaction gave significant credit to the strong development of the Funécap business since Latour III's initial investment in 2021. The transaction valuation was assessed and controlled by two independent experts. Importantly the new equity from Latour IV was 100% primary with no cash out for Latour III or co-investors. abrdn emphasised the need to ensure the transaction did not have any negative impact on the Latour III investment. Given the strong acquisition and organic growth opportunities for the business, we see the additional equity from Latour IV as accretive to the overall plan for the Funécap investment.
Was the engagement successful – if not what is the next point of escalation	The Advisory Board including abrdn's seat was ultimately supportive of the proposal and the transaction was approved.

Portfolio	Asset-backed securities – TwentyFour AM
Investment	Margay CLO
What was the aim of the engagement	M&G Investments brought their first CLO deal (Margay CLO) to the market for a number of years and TwentyFour were keen to discuss the terms of their new deal in order to ensure that bondholder rights were sufficient. TwentyFour sent a list of what they called Stipulations that they would like to see in the CLO documentation. Stipulations are important as they limit the flexibility of the CLO manager in terms of how it can use extra cash or what it can buy, how much risk it can take for instance. For this manager specifically TwentyFour wanted to limit the flexibility after the end of the reinvestment period. TwentyFour believe CLOs are not permanent vehicles and investors should get their money back after a certain amount of time. By limiting the flexibility of what the manager can buy or sell they can be sure the transaction will get called (repaid). TwentyFour were pretty strict with this manager because it was their first CLO deal post crisis. They asked for no investments to be allowed one year after the end of the reinvestment period.
What was the result of the engagement – what's changed	The manager pushed back on this, as expected, but after some back-and-forth engagements, they agreed the language TwentyFour requested. TwentyFour felt that this was a great achievement that was also welcomed by other buy-side investors.
Was the engagement successful – if not what is the next point of escalation	TwentyFour were pleased to report that these additional terms are now becoming market standard and believe this is an example of how investment managers can exercise their rights constructively.

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