Task force on climate-related financial disclosures – 2024

Hampshire County Council

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Introduction

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks.

The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and did so for the first time in 2021. This report sets out the approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. The report also includes the recommendations of the Department for Levelling Up, Housing and Communities (DLUHC) that were consulted on in their paper *Governance and reporting of climate change risks* published in September 2022.

Governance

Recommended disclosure (a)

Describe the Administering Authorities' oversight of climate-related risks and opportunities

Hampshire County Council is the Administering Authority of the Hampshire Pension Fund, part of the Local Government Pension Fund Scheme (LGPS). The Hampshire Pension Fund Panel and Board (a committee of Hampshire County Council) is responsible for agreeing investment objectives, strategy, structure and for developing and agreeing the Responsible Investment Policy. All of the Hampshire Pension Fund's investments are managed by specialist external investment managers. The Panel and Board receive regular reports from the Fund's investments managers, which includes their management of responsible investment and climate related risks and opportunities.

To assist with managing the Pension Fund's Responsible Investment policy and monitoring its activities, the Panel and Board has created a specific Responsible Investment (RI) Sub-Committee.

In the last year the Hampshire Pension Fund Panel and Board and the RI sub-committee have considered three separate reports specifically addressing Climate Change risks. These are summarised as follows:

- **March 2023:** the Panel and Board agreed and published the Pension Fund's fourth annual update on Responsible Investment, including carbon footprint analysis of the Fund's listed equities.
- **September 2023:** the Panel and Board agreed to set targets that over 30% of the alternative investment portfolios are allocated to sustainable or impact investments by 2026.
- **December 2023:** the Panel and Board considered the Fund's investment in fossil fuel companies following reports on the irresponsible extraction activities of some fossil fuel companies.

In addition to the reports above the Panel and Board received further training on climate scenario analysis of the Pension Fund's assets and liabilities in its Actuarial Valuation.

Recommended disclosure (b)

Describe management's role in assessing and managing climate related risks and opportunities, including:

- any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done
- any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken

The Director of Corporate Operations is responsible for implementation of the Pension Fund Panel and Board's decisions. Day-to-day implementation of the Pension Fund's Responsible Investment policy is delegated to the external investment managers, who operate under the Pension Fund's policy on Responsible Investment and are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies

The Pension Fund's officers with oversight from the Director of Corporate Operations, and where appropriate via the ACCESS pool meet regularly with the Fund's investment managers. In addition, the Pension Fund Panel and Board see each investment manager at least once annually to provide the opportunity to satisfy themselves that climate risks and opportunities are being managed.

The Pension Fund Panel and Board receives external support from:

- specialist third-party consultants (Apex) who were commissioned for specific pieces of work in reviewing its investment managers and the climate risks and opportunities in its portfolios
- its independent advisor who provides advice on the general management of the Pension Fund, in particular the oversight of investment managers and advice received by consultants

The Members of the Pension Fund Panel and Board and officers, have an annual training plan, based on CIPFA's Knowledge and Skills framework to ensure that they have the required skills and experience to satisfy the Administering Authority that there is appropriate management of climate risks and opportunities for the Pension Fund – this training includes access to the Hymans Robertson LGPS Learning Academy, an online module based training package which must be completed by all Panel and Board Members.

Strategy

Recommended disclosure (a)

Describe the climate-related risks and opportunities that will impact the investment and funding strategy over the short, medium, and long term

The Hampshire Pension Fund has a global investment strategy widely diversified by geography, asset class, sector, and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.

The largest allocation in the Pension Fund's investment strategy is to equities, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate-related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets
- changing consumer demand patterns
- changing cost structures including increased emissions pricing, insurance, and investment in new technologies

The Fund also recognises that there is uncertainty over the direction and speed of policy changes in this area.

Short term risks are those where the impact or the Pension Fund's actions will have an immediate effect, for example:

- through the monitoring and discussion of the status of its property investments with its appointed investment manager and subscription of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment; the Fund can monitor the effectiveness of the management of the sustainability of its property portfolio and through its investment manager target where the priorities for improvements are
- via its investment managers engagement with the companies that the Fund invests in, which the Fund supports and monitors, encouragement can be given to companies that share its belief in the importance of implementing the *Paris Agreement*. By adding its support to the adoption and monitoring of decarbonisation plans, the Pension Fund can assist in the move to a lower carbon economy

With respect to medium and longer term risk the effects and any actions will take longer to manifest. The Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities. As a public sector pension fund, reputational risk is also a particular concern, though not for financial reasons.

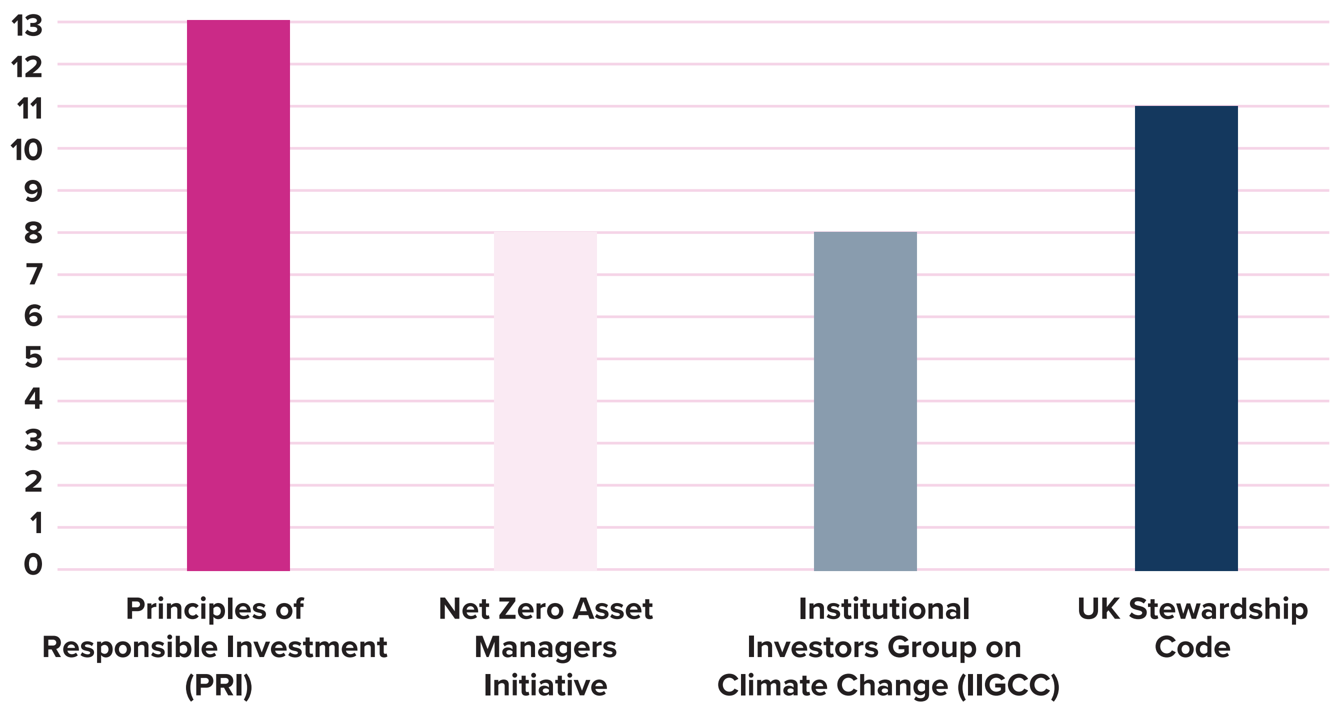
Funding risks are reviewed by the Actuary at each triennial valuation and on an ongoing basis in discussion with the Pension Fund. In relation to Climate Change these could include the life expectancy of scheme members of the Fund and the ability of the Fund's employers to continue to meet their pension obligations if their circumstances change.

Recommended disclosure (b)

Describe the impact of climate related risks and opportunities on the investment and funding strategy

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager appointments and the Pension Fund monitors on an ongoing basis its investment managers ability to manage climate risk and opportunities. The Pension Fund believes that there are a number of important and internationally recognised standards that support the better management of climate risks and opportunities. The chart below shows the Pension Fund's 13 investment managers adoption of these standards. The Fund continues to encourage those investment managers that haven't adopted these standards to do so.

Pension Fund investment managers signatories to key initiatives



The Pension Fund has identified five of its portfolios (two passive global equities, two active global equities and one multi-asset credit) that have been transitioned to lower carbon alternatives without compromising the investment return that the Fund requires to meet its Funding Strategy. In addition the Pension Fund has moved its portfolio of passive Emerging Market equities to an active portfolio, where it believes climate risks will be better managed.

The Fund will continue to discuss with its investment managers where there are opportunities to improve environmental outcomes that also correlate with positive investment performance.

Recommended disclosure (c)

Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario

The Hampshire Pension Fund believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations.

The Pension Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies, however the Fund has engaged with its investment managers on climate risk scenario analysis, and following taking advice from its specialist external consultant, chose to ask its investment managers to consider the PRI's *Inevitable Policy Response* scenario. The engagement exercise between the Fund's officers and the investment managers was productive and this was given due consideration by the Fund's investment managers.

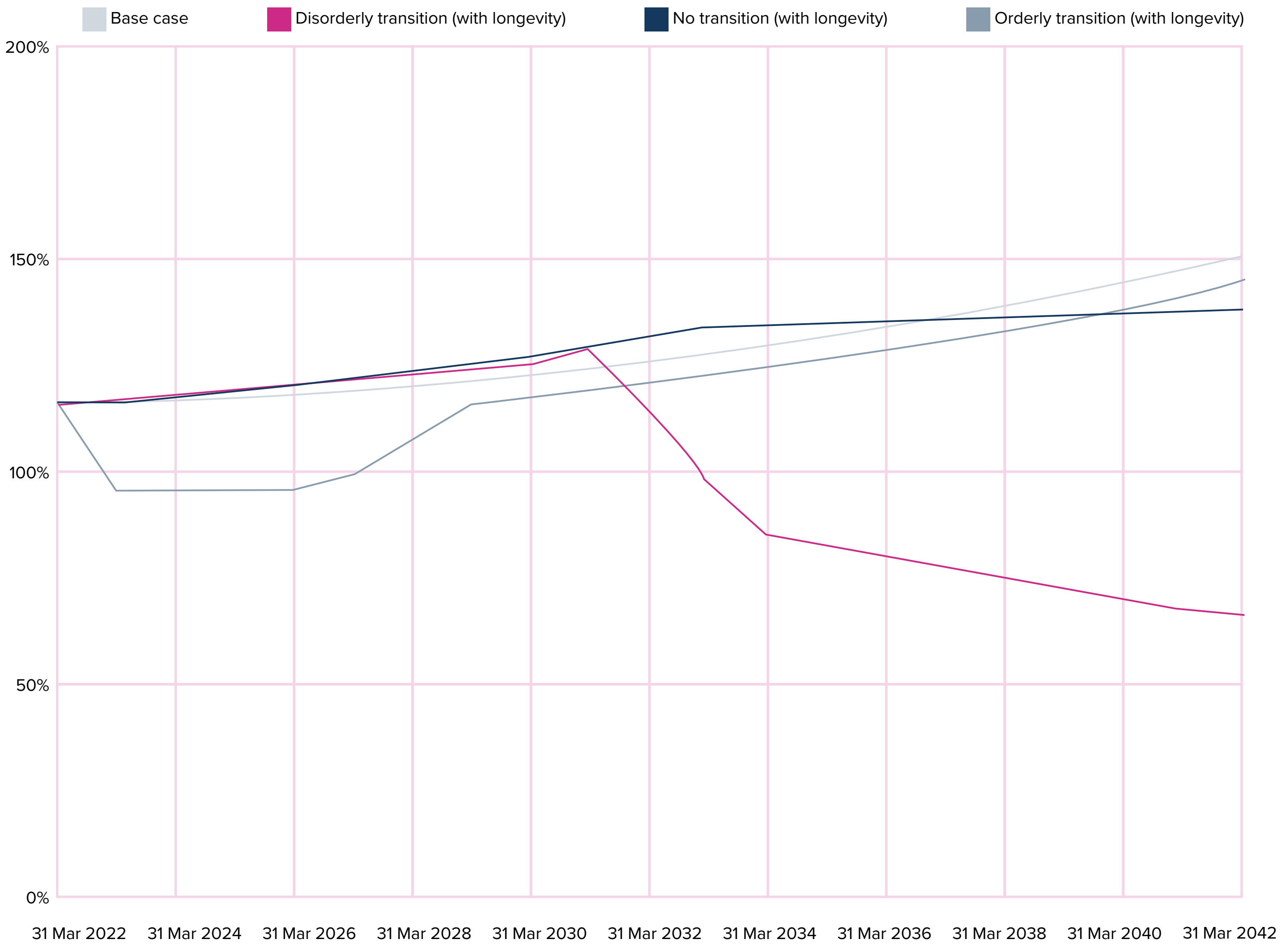
The Pension Fund received a variety of responses from its investment managers, ranging from those where further work would be required to be able to fully assess the impact, to those that had undertaken detailed modelling in producing their response. Although the responses received have varied and did not produce a conclusive quantitative answer, it provided a qualitative assessment of the Fund's investment manager's different abilities to considering scenario analysis. The Fund will look to repeat scenario analysis with its investment managers.

The Fund continues to encourage greater levels of climate-related disclosures through its discussions with its investment managers and their engagement and voting with the companies they invest in to address this issue. The Fund is well diversified and has allocations to real assets and through its infrastructure portfolio, the renewable energy sector, therefore Climate Change risks should have a relatively limited impact on returns.

As part of the Pension Fund's 2022 Actuarial Valuation, the Fund's Actuary produced scenario analysis of the Fund's funding position. The Actuary considered three scenarios:

- **No transition – implied temperature rise (by 2100) +4°C**
- **Disorderly transition – implied temperature rise +3 - 4°C**
- **Orderly transition – implied temperature rise +1.3 - 2°C**

Funding level projections under each climate scenario



In summary Aon's analysis is that:

- The Fund's investment portfolio exhibits reasonable resilience under most of the climate scenarios. This is due to the diversification of assets.
- The worst-case scenario for the Fund is disorderly transition. Although initially the funding level improves in line with the base case, after 10 years the funding level deteriorates sharply and does not recover by the end of the 20 year modelling period.
- Another key risk is volatility of the funding level. Under the orderly transition, the Fund experiences large falls in the funding level of around 20% before recovering. Deterioration of the funding level will place strain on the participation of employers as they may have to make up bigger shortfall through deficit contributions.

Risk management

Recommended disclosure (a)

Describe the Administering Authority's processes for identifying and assessing climate-related risks

The Hampshire Pension Fund's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes Climate Change. This means that external investment managers consider any climate-related risks when making their investment decisions.

The Pension Fund Panel and Board, supported by its independent advisor, the Pension Fund's officers, and the consultants they have commissioned, monitor and scrutinise the Fund's investment managers to help ensure that climate risks are being assessed and addressed. The Fund's carbon footprinting is used to inform this process.

Recommended disclosure (b)

Describe the Administering Authority's processes for the purpose of enabling them to effectively manage climate-related risks

Development of specific investment strategies

The Panel and Board agreed to set targets that over 30% of the alternative investment portfolios are allocated to sustainable or impact investments by 2026.

A number of the Pension Fund's equity portfolios have been moved to strategies that are *Paris aligned* or are lower carbon.

Formal advice

The Hampshire Pension Fund has previously taken formal advice from specialist responsible investment consultants Apex including:

- review of the Responsible Investment Strategy and suggested areas for development
- training for the Pension Fund Panel and Board
- review the Fund's external investment managers' responsible investment approaches

In 2022 the Pension Fund recommissioned advice on the Environmental, Social and Governance (ESG) risks across its investment portfolios. This analysis is a key tool for the Pension Fund in analysing the comparative risks and opportunities from Climate Change and highlighting areas to focus with the investment managers.

Exercise of ownership responsibilities

Ownership activity relating to Climate Change risk is carried out by the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest. Voting activity is published on the Pension Fund's website and a summary of key engagements following up the risks highlighted by the external review, are reported to the Responsible Investment Sub-Committee for the members to include their scrutiny of the Fund's investment managers.

Recommended disclosure (c)

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

The Hampshire Pension Fund's overall approach to risk management is described in its Risk Management Report, which is part of its Annual Report and Business Plan. Risks are now scored on a five point scale, with impacts measured for business, financial and reputational impact. In 2023 in its latest review of its Risk Register the Pension Fund clarified ESG and Climate Change risk as follows.

ESG risk	The Pension Fund has a Responsible Investment Policy, which includes setting out how external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to Climate Change and the overall risk from the impact of Climate Change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Pension Fund takes advice on the appointment and monitoring of its investment managers, which includes their ability to assess ESG issues and act as steward of investments on the Pension Fund's behalf. A significant amount of the Pension Fund's attention has focused on the management of ESG risk, in particular the risk of climate change. Monitoring is undertaken through the regular engagement with the Fund's investment managers and is reported in a number of ways, including a stewardship report that is made to each meeting of the Fund's RI sub-committee and an annual RI update made to the Fund's scheme members. The Pension Fund continues to commission GRESB benchmarking to measure the management of ESG for its direct property portfolio, which will be used on an ongoing basis to 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.

The Pension Fund currently reports extensively on environmental, social and governance issues including Climate Change. This includes:

- reports for the Pension Fund Panel and Board and the Responsible Investment Sub-Committee
- an annual report on Responsible Investment Activity which is considered by the Responsible Investment Sub-Committee, sent to pensioners and included in the Fund's Annual Report
- a specific page on the Pension Fund's website **hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment** containing further information

Metrics and targets

Recommended disclosure (a)

Disclose Scope 1, Scope 2 and Scope 3 emissions.

Absolute emissions metric: Total carbon emissions

Data quality metric

The following table shows that the Pension Fund has carbon data for 65.2% of its investments. The majority of the unreported data relates to the funds unlisted assets; property, private equity and infrastructure investments, where calculating emissions data is harder and behind other asset classes.

Total financed emissions		Scope 1 (tCO2e)	Scope 2 (tCO2e)	Scope 1&2* (tCO2e)		Scope 3 (tCO2e)
Estimated	10.7%	7,328	5,682	45,041	16.5%	615,641
Reported	54.5%	61,416	28,674	414,845	15.0%	1,194,305
Verified	0.0%				0.0%	
Unreported	34.9%				68.5%	
Total	100.0%	68,744	34,356	459,886	100.0%	1,809,946

*Scope 1&2 emissions are not the total of Scope 1 and Scope 2 as for some portfolios the figures cannot be separated and reported individually

Emissions intensity metrics: Carbon footprint and carbon intensity

Paris-aligned metric

The table below shows the carbon footprint (tCO2e/£m invested) and carbon intensity (tCO2e/£m revenue) of each of the Pension Fund's portfolios, and where available the proportion of companies in the portfolio that have set goals aligned with a well below 2°C scenario (i.e. with the goals of the Paris agreement), which is consistent with net zero carbon emissions by 2050. Through the engagement with companies by its investment managers, companies are encouraged and supported to set Paris-aligned goals where they have not done so already.

Emissions intensity metric: Carbon footprint – Scope 1&2

Investment manager	Asset class	Scope 1&2			
		Total carbon emissions (tCO2e)	Carbon footprint (tCO2e/£m invested)	Carbon intensity (tCO2e/£m invested)	Paris-aligned companies
Acadian	Active global equities	27,295	41.0	56.4	60.1%
Baillie Gifford LTGG	Active global equities	11,774	3.4	13.4	36.9%
Baillie Gifford GA	Active global equities	28,690	29.6	66.5	51.1%
Dodge & Cox	Active global equities	108,943	132.9	156.2	51.1%
UBS - factor mix	Passive global equities	39,923	35.3	114.2	72.5%
UBS - all world	Passive global equities	7,553	24.7	54.2	73.6%
Robeco	Active emerging market equities	2,678	43.8	90.8	30.0%
Alcentra	Multi-asset credit		180.0	188.0	
Barings	Multi-asset credit	11,558	29.8	79.5	20.5%
Twenty-four AM	Asset-back securities	0	0		
CBRE	UK property				
abrdn	Private equity				
GCM	Infrastructure				
JPM AAM	Private debt	18,826	36.0	0.0	
UBS - index linked gilts	Passive	181,540	123.2		
Internal	Cash				
Total/Weighted total		459,886	71.9	92.7	55.9%

Emissions intensity metric: Carbon footprint – Scope 3

Investment manager	Asset class	Scope 3		
		Total carbon emissions (tCO2e)	Carbon footprint (tCO2e/£m invested)	Carbon intensity (tCO2e/£m revenue)
Acadian	Active global equities	250,993	377.2	518.6
Baillie Gifford LTGG	Active global equities	179,389	91.4	575.8
Baillie Gifford GA	Active global equities	227,269	413.8	862.3
Dodge & Cox	Active global equities	1,021,176	1,245.9	1,460.5
UBS - factor mix	Passive global equities	0	0.0	0.0
UBS - all world	Passive global equities	0	0.0	0.0
Robeco	Active emerging market equities	21,030	512.5	727.7
Alcentra	Multi-asset credit	27,262	233.0	242.0
Barings	Multi-asset credit	59,354	153.2	305.0
Twenty-four AM	Asset-back securities			
CBRE	UK property			
abrdn	Private equity			
GCM	Infrastructure			
JPM AAM	Private debt	23,474	35.0	
UBS - index linked gilts	Passive			
Internal	Cash			
Total/Weighted total		1,809,946	265	730

Recommended disclosure (b)

Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets

The Pension Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2°C (which we take to be 1.5°C) relative to pre-industrial levels is entirely consistent with securing strong financial returns, which is its most prominent area of focus for responsible investment.

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.**

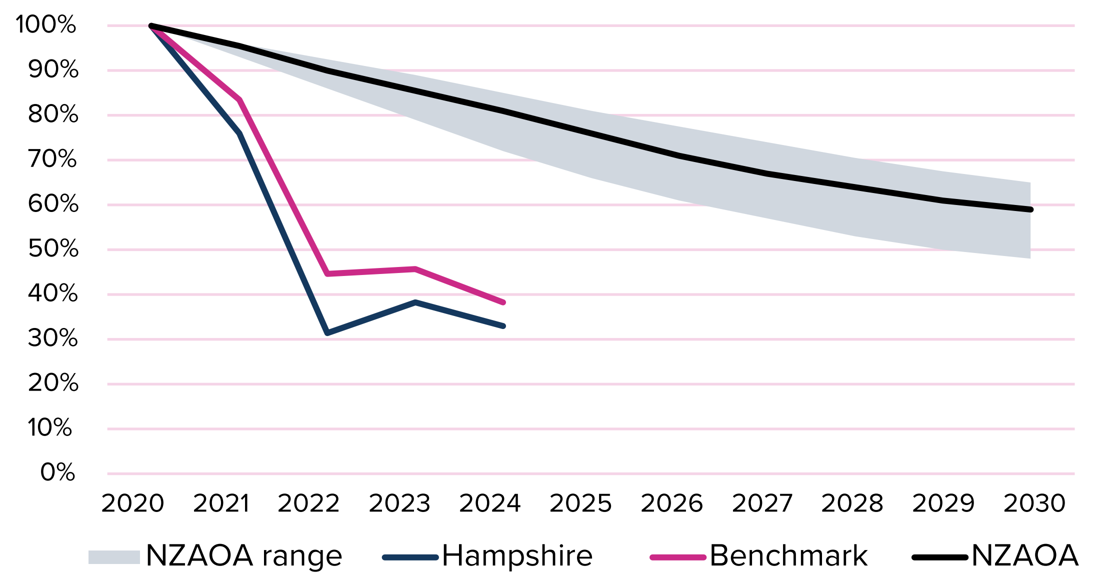
To track the Fund's progress to net-zero emissions, the Pension Fund measures against the Net-Zero Asset Owner Alliance (NZAOA) trajectory.

The latest figures for 2024 show the Pension Fund has achieved a 67% reduction since 2020, well below the NZAOA trajectory.

The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios or invest in portfolios with already very low emissions:

- Acadian Managed Volatility – carbon emissions limited to 50% of the benchmark
- Baillie Gifford Long Term Global Growth – carbon emissions are only 6% of the benchmark
- Baillie Gifford Global Alpha – moved to a Paris Agreement aligned strategy
- UBS passive global equities – moved to a climate aware strategy
- UBS passive factor equities – moved to a carbon aware strategy
- Barings multi-asset credit – carbon emissions limited to 70% of the benchmark
- Emerging market equities – moved from a passive to an active portfolio

Decarbonisation – Hampshire equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative) (% reduction vs. baseline)



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