

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	12 July 2019
<b>Title:</b>	Governance: Responsible Investment Policy
<b>Report From:</b>	<i>Director of Corporate Resources – Corporate Services</i>

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### Purpose of this Report

1. To recommend an updated Responsible Investment Policy and terms of reference for a Responsible Investment sub-group of the Panel and Board, following consultation with the Pension Funds scheme members and employers.

### Recommendations

2. That the contents of the report including the consultation responses are noted.
3. That the revised Responsible Investment Policy is approved.
4. That the Terms of Reference for the Responsible Investment Sub-Committee are approved and that the committee appoints members to it, noting that for the four politically proportionate Hampshire County Council members this should currently be on the basis of three Conservatives and one Liberal Democrat.

### Executive Summary

5. At its December 2018 meeting the Panel and Board agreed to consult on a redrafted Responsible Investment Policy. The Pension Fund received 29 consultation responses. The Pension Fund's Responsible Investment Policy, with amendments following the consultation, is presented for the Panel and Board's approval.
6. The redrafted Responsible Investment Policy includes the creation of a Responsible Investment Sub-Committee. A terms of reference for the new sub-committee is attached to this report for approval and the Panel and Board are asked to appoint the initial members.

## **Responsible Investment Policy consultation**

7. As approved by the Pension Fund Panel and Board in December 2018 a consultation ran from 27 March 2019 to 17 May 2019 including:
  - A specific Responsible Investment section on the Pension Fund's website where the new draft policy would be published, with an explanatory note.
  - Inclusion in the employers' newsletter requesting that employers publicise the consultation to their members (Hampshire posted an article on the frontpage of Hantsnet, on Yammer and in a blog update from the Deputy Chief Executive and Director of Corporate Resources, which received 559, 476 and 217 views respectively).
  - An email to a sample of 500 deferred scheme members that Pensions Services hold email addresses for.
  - Inclusion in the newsletter that accompanies the pensioners' annual payslip.
  - Writing to Hampshire's Director of Public Health
  - Writing to the Pension Fund's investment managers to ask their views on the draft policy.
  - Sharing the draft policy with the other members of the ACCESS pool.
  
8. In total the Pension Fund received 29 responses from scheme members and employers as follows:
  - 2 employers
  - 1 group (representing 20 scheme members)
  - 3 pensioners
  - 17 active members (including 14 identifying themselves as employees of the Administering Authority)
  - 6 scheme members where it was not possible to identify the group that the member belonged to.
  
9. In summary the consultation responses can be summarised as follows:

	<b>The draft policy goes too far – investment decisions should be solely focused on financial returns, regardless of how they are generated.</b>	<b>Satisfied with the draft policy</b>	<b>The draft policy does not go far enough – the policy should be more specific on the implementation of responsible investment, including disinvestment or promotion in particular areas.</b>
Employers	1		1 (Fossil fuels - 1) (Armaments – 1) (Tobacco / alcohol / gambling – 1)
Groups			1 (Fossil fuels/ climate change – 1)
Scheme members	1	7	18 (Fossil fuels / climate change – 12) (Armaments – 7) (Tobacco – 3) (Equal pay – 1) (Human rights / modern slavery– 3) (Unethical / gambling / pornography – 3)

10. The consultation responses highlighted a number of areas where the policy could go further in better defining Environmental, Social and Governance (ESG) factors and the factors that the Pension Fund expects active investment managers to consider in assessing the long term financial returns of a company. The draft policy contained in Annex 1 for approval has been updated to reflect these changes.
11. There is a clear majority in the responses from the consultation from responders that would like the Pension Fund's policy to go further, including disinvesting or promoting a variety of sectors. However the overall number of responses represents a tiny fraction of the Pension Fund's overall membership (over 170,000 scheme members and 300 employers). Therefore in terms of discharging the Fund's responsibilities this does not represent the sufficient

weight of evidence that the Fund would need to demonstrate that a majority of members would support disinvestment.

12. This highlights the continued need for the Pension Fund to improve engagement with its membership, to articulate its fiduciary duty and the steps required in order to support any decision to disinvest. This links to the mandate for the new Responsible Investment sub-committee; the introduction of which was welcomed by a number of responders.
13. The Director of Public Health for Hampshire has responded to the consultation. Changes have been made to the draft policy to include language to account for 'health inequalities'. The Director of Public Health's response includes requesting 'that the Hampshire Pension Fund Panel and Board include the exclusion of tobacco companies within the Responsible Investment policy under the Stock/Sector Exclusions and Social Impact investments section. This is due to the fact that there is a fundamental contradiction between the duty of Hampshire County Council to promote public health and the general wellbeing of local populations under the Health and Social Care Act 2012, and our pension investments in the tobacco industry.'
14. A number of positive responses to the draft policy were received from the Pension Fund's Investment Managers, including observations on the level of consideration that had gone into the revised draft. Following the comments received amendments have been made to clarify the Fund's long-term investment aim and the reporting and monitoring expected for investment managers. The wording of the draft policy has also been expanded to incorporate the distinct characteristics of the Pension Fund's investments in closed end partnerships and direct property.
15. Sharing the Fund's updated draft Responsible Investment policy with its partners in ACCESS has initiated a review of the initial ESG guidelines that were developed by the pool, which is planned for the coming year. Hampshire's new draft policy goes beyond and is more detailed than many of the other ACCESS funds and the current ACCESS guidelines. New ACCESS guidelines would need to be agreed in order for the investment managers that have been contracted by Link to have to comply with any updated requirements. But Hampshire's additional focus on the investment decision making process demonstrating consideration of ESG factors is already being considered in the pool's reporting expectations for investment managers.

### **Responsible Investment sub-committee**

16. Following-on from the working group of the Panel and Board that was responsible for recommending the initial amendments to the Responsible Investment Policy, the new policy includes making this arrangement a permanent on-going feature through the creation of a sub-committee of the Panel and Board. Terms of reference for the Responsible Investment Sub-

Committee are attached in Annex 2 to this report, including the sub-committee's appointments process. The Panel and Board are asked to approve the terms of the reference and make the initial appointments to the sub-committee. For 2019/20 the County Council's proportionality requires that the County Councillors appointed should be three Conservative members and one Liberal Democrat member.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For the ongoing management of the Hampshire Pension Fund.	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.