

AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually on Friday 5 March 2021.

Chairman:

* Councillor M. Kemp-Gee

Vice-Chairman:

*Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* B. Tennent

*A. Joy

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth Council)

Scheme Member Representatives (Co-opted members):

* Mr N. Wood (active scheme member representative)

*present

38. **APOLOGIES FOR ABSENCE**

No apologies were received.

39. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

40. **CONFIRMATION OF MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 20 October 2020 were confirmed.

41. **DEPUTATIONS**

Mr Mould-Ryan, a Hampshire Pension Fund scheme member, speaking on behalf of the Hampshire Pension Fund Divest Group to draw the RI Sub-Committee's attention to a report released on 23 February 2021 by

Platform and Friends of the Earth. It is reported that Hampshire Pension Fund's fossil fuel investments were £136m as at 31 March 2020, although local campaigners had previously been unable to obtain via three separate Freedom of Information requests. Mr Mould Ryan also quoted from the report that the Hampshire Pension Fund suffered the 7th largest loss amongst LGPS funds, of £68.4m between 2017 and 2020 from investments in oil company shares. Continuing to quote from the report, Mr Mould-Ryan stated that 'The biggest economic disruption of our modern era will be the transition from fossil fuels to renewable energy'.

Mr Mould-Ryan said he understood that Environmental, Social or Governance (ESG) issues are now a theme in all of the Hampshire Pension Fund meetings, that the Hampshire Pension Fund has appointed a Responsible Investment advisor, and that the ACCESS pool has recently appointed an ESG consultant at Minerva who are part of the Transition Pathways Initiative. These developments are welcomed and it is hoped will embed environmental considerations into every investment decision taken by the Fund, and he also welcomed the shift of the Fund's passive investments and one managed fund into lower-carbon alternatives. However, the Pension Fund must move farther and faster.

Mr Mould-Ryan highlighted that the Transition Pathways Initiative had assessed 125 oil and gas producers, coal companies, and electricity groups on their preparedness for a lower-carbon economy. They found that no major oil, gas or coal company is on track to align their business with the Paris climate goal of limiting global temperature rise to well below 2°C by 2050. Fund manager engagement alone will not change this, as it rarely results in a shareholder resolution to alter the course of the business that the asset is held in. Engagement as a negotiating position is meaningless without an explicit threat that you may withdraw your funds, which requires having a policy to divest.

Meaningful action on climate change requires a commitment to ending the expansion and extraction of fossil fuels, so the decision to end fossil fuel investments must be taken now as a priority, and this brief must be given to consultants, advisors and investment managers working on behalf of the Fund and the ACCESS pool. However, this is not just an ESG issue. It is a classic risk issue, because the transition is fundamentally disrupting markets in a way only comparable to the rise of the internet. The Bank of England has said that in the UK up to £16 trillion of assets could be wiped out if the climate emergency is not addressed effectively.

Mr Mould-Ryan observed that item 6 on sub-committee's agenda said that, 'correspondence to date on investments that relate to climate change...has been received from a very small minority of the nearly 179,000 scheme members'. However the sub-committee should also note that a 2020 poll revealed that the UK public wants a radical

response to climate change, with the same urgency as the response to the COVID-19 crisis, because after all, scheme members are part of the UK public.

Finally Mr Mould-Ryan noted that the Hampshire Pension Fund banked with NatWest, which itself has invested over \$12 billion in fossil fuels since the Paris agreement. He suggested that a conscious choice to bank ethically would go hand in hand with a decision to end fossil fuel investments.

Mr Mould Ryan concluded by urging the RI sub-committee to read the Friends of the Earth report and thanked them for their time in hearing his deputation.

42. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman gave the sub-committee a brief summary of the Hampshire Pension Fund's actions to increase and improve its RI activity, which pre-dated the County Council's declaration of a Climate Emergency, this included:

- In September 2018 forming a working group, that took advice from Dr Rupert Younger - Chair of Oxford University's SRI Committee, to review the Pension Fund's RI policy.
- A significant consultation exercise with the Pension Fund's scheme members and employers on the new RI policy in April 2019.
- Creating the RI sub-committee in September 2019, whose first actions included agreeing that the Pension Fund sign the UK Stewardship Code and the UN Principles of Responsible Investment.
- In April 2020 appointing the specialist RI consultants MJ Hudson Spring, who reported to the Panel and Board in September 2020 on the Fund's investment managers RI approaches.
- Agreeing in March 2020 to transfer the passive global equity investment to a Climate Aware fund and in November 2020 to transfer one of the Fund's active global equity portfolios to a Paris Aligned version of the strategy.
- In April 2020 reported the Pension Fund's first Annual Update on RI activities, including data on carbon output of the Fund's investments.
- In December 2020 building in GRESB ESG benchmarking into its new property investment management contract.

The Chairman confirmed that the substitute arrangements for the sub-committee are now in place as agreed by the Panel and Board at its last meeting, however as no apologies were made for the meeting, no substitutes have been required.

The Chairman highlighted for members the All-Party Parliamentary Group for Local Authority Pensions inquiry into Responsible investment

for a Just Transition. The Pension Fund has contacted its external investment managers to understand their response to the enquiry and is considering what if any response it makes itself. In line with the County Council's policy, if a response to the enquiry is made it will be reported to the following meeting of the Pension Fund Panel and Board.

43. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 6 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning ESG issues. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to climate change, including deputations to the Pension Fund Panel and Board, the correspondence to date has been received from a very small minority of the nearly 179,000 scheme members.

The Director introduced the Pension Fund's second RI Annual Update for 2021, which has been written taking into account feedback received on the report last year and subsequent discussions at the Pension Fund Panel and Board, with a focus on making the report more accessible to non-specialist readers. A small amount of the budget agreed by the Panel and Board to enhance communications was used to commission the County Council's Communications and Marketing teams to assist in this process. The Director highlighted that minor further changes will be made to the draft Annual Update before it is published.

RESOLVED:

- a. That the Annual Update on RI activities was approved to be published to scheme members.
- b. That the communication to and from scheme members on RI issues was noted.

44. **SHAREHOLDER VOTING HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 7 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in. How votes are cast by the Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held between equities directly held by the Pension Fund,

held in the ACCESS pool, or in pooled funds of external investment managers.

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

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

The full details of how votes have been cast for the Pension Fund is published on its RI webpage

<https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment>

The Director also reported a number of examples of the company engagement activities that the Pension Fund's active equity investment managers had undertaken. The examples including addressing a range of ESG issues, such as disclosure of carbon emissions, worker health and safety and tax strategy. In response to the members' questions the Director confirmed that the Pension Fund's investment managers had all confirmed their agreement to comply with the Fund's RI policy, and would report on any exceptions to the Fund's voting and engagement policy.

45. **TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)**

The RI Sub-Committee received a report from the Director of Corporate Resources (Item 8 in the Minute Book) a draft report from the Hampshire Pension Fund reporting against the TCFD recommendations. TCFD is a global, private sector led group first assembled in December 2015 at the instigation of the international Financial Stability Board (FSB).

In August 2020 the Department for Work and Pensions (DWP) published a consultation aiming to ensure that pension funds follow the TCFD disclosure recommendations. The Local Government Association have confirmed that the DWP consultation will not apply to LGPS funds like Hampshire, however it is expected that the Ministry of Housing, Communities and Local Government (MHCLG) will publish similar proposals once the DWP consultation closes. The elements of TCFD are also part of the United Nations Principles of Responsible Investment (UN PRI) annual assessment which Hampshire

committed to participate in following agreeing to sign the PRI in 2019. It is therefore recommended that the Hampshire Pension Fund adopts the TCFD reporting in advance of legislation and other reporting requirements.

RESOLVED:

- a. That the report was noted and the draft TCFD disclosure report was agreed to be included in the Pension Fund's Annual Report to be published in July 2021.

46. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

47. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

48. **ACADIAN'S MANAGED VOLITILITY PORTFOLIO**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 11 in the Minute Book) to propose a change to the Pension Fund's investment in Acadian's Managed Volatility global equities portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]